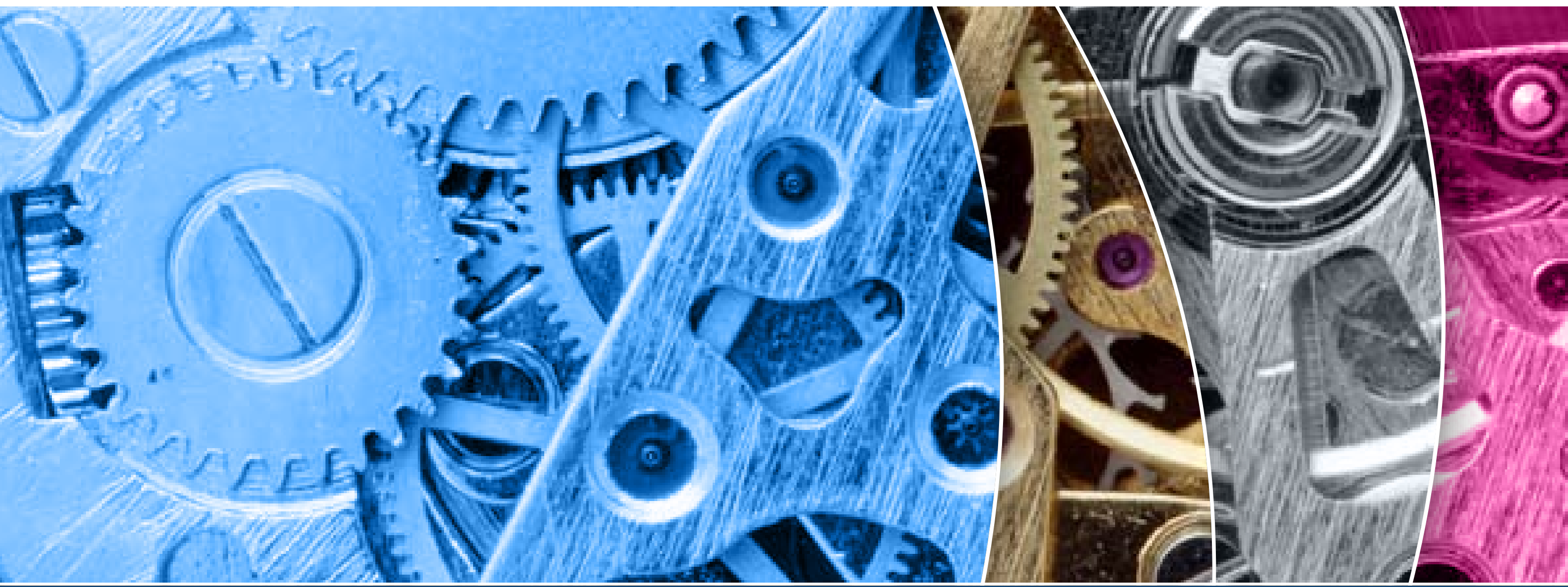
KELER

# Annual Report 2012



# Contents

# 1. CHAIRMAN'S MESSAGE

On both global and European scale the top priority of 2012 remained to be crisis management and to reboot economic growth, that were more or less achieved by certain countries with the introduction of the various economic stimulus schemes, while other states kept on struggling with increasing unemployment rates, dried up domestic demand and high levels of indebtedness. Investors continued to avoid risks that did not bode well for exchange volumes – although global exchanges experienced a discreet level of revival, unfortunately, the Hungarian volumes did not follow suit in 2012. In spite of the challenging economic conditions KELER Group has closed a successful year due to the unexpectedly beneficial result of financial activities stimulated by the favorable trend of interest rates.

One of the most distinguished developmental feature during the year was the segregation of the clearing house and the central securities depository activities. As a result, since 1 January 2013, KELER CCP has been operating as an independent clearing house, while KELER continues to be engaged in the business of providing traditional central securities depository services.

In order to implement the so-called TARGET-2 Securities (hereinafter: T2S) initiative that aims to pull down capital market borders in Europe and to create a uniformed capital market, the Strategic Modernization Program (hereinafter: SMP) was established. SMP progressed in the past year, both in terms of regulatory compliance and the replacement of the account management systems. The T2S National User Group and its two working groups cooperate with the KELER team to facilitate the successful execution of T2S migration in 2016.

We may also boast about numerous other achievements in earlier periods of the year. The launch of the intraday financial clearing with multiple clearing periods as of 2 July 2012 required major efforts by KELER in the first half of the year. In InterGiro2 payment orders are executed within four hours from receipt.

We are proud to announce that the number of electronic services offered by KELER further increased in the last year. In the spring, the eInvoice service was launched to help optimize our and our Clients' processes. Later, in November 2012, the eDEMAT service was introduced to provide users with a platform covering the whole range of dematerialized securities events, thus simplifying their processes.

The KELER Group responded to the challenges of unfavorable economic environment with the development of its service level, the expansion of service-range and an augmented number of Clients served. KELER CCP continuously provided clearing services for existing and new markets regarding the traditional BSE and the MTF markets as well, including the introduction of international equities based futures contracts, and at the same time, it started to offer services on MTS market in 2012. KELER CCP expanded its services for energy market non-clearing members to EPEX SPOT, one of the largest power exchanges in Western Europe; and also planning to serve further markets in the future.

Furthermore, in the second half of the year KELER CCP had started to prepare for the provision of central counterparty and clearing services for CEEGEX, the domestic gas market that has been providing its service since the beginning of 2013. Despite the tight deadline the preparation phase was successfully completed by the end of December, thus the number of markets served by KELER CCP further increased.

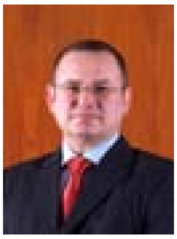
The launch of new markets and products fitted naturally into the strategy of the KELER Group and the structure of settlement and guarantee undertaking, thus the expansion was completed rapidly and securely following the regulatory harmonization.

Additionally, we sophisticated our services to satisfy Clients' demand on a higher level regarding both the capital and the energy markets. Consequently, the securities market settlement deadline was extended, thus from mid 2012 transactions can be fulfilled until 14:00 hrs instead of 11:30 hrs; and the settlement model of the power market was adjusted to the practice of Western Europe.

The expansion of Clients' range and the scale of products offered required the maintenance and the continuous development of the risk management methods. Subject to the change of risks, initial margins were modified several occasions in 2012; with respect to the new products the appropriate initial margin values were determined based on available information. These changes resulted in the intensifying Client contacts and communication; during the year professional forums were convened several times to facilitate the discussion on the actual financial and risk management issues and the introduction of our service-scale.

In 2012, the traditional bi-annual personal and online client satisfaction surveys were supplemented with a solely online survey that is going to be completed every year when no bi-annual survey is executed. Based on the feedback received through the questionnaires the KELER Group can state that the positive view of its Clients with respect to the Group continued to improve in the course of the past years. During 2012 KELER CCP held three clearing member forums that a large number of our Clients attended to represent the interests of the market. In addition to the Clearing Member Forums, KELER CCP created the OTC Derivative working group with active participation of market players aiming to assess the attributes of the current Hungarian OTC derivative market and to review the future clearing service opportunities of KELER CCP in the Hungarian market.

I would like to take this opportunity to say thank you to the owners of the KELER Group, the Hungarian credit institutions, investment firms, issuers and all of our partners on the capital and energy markets. I express my gratitude to the capital and energy market Clients and the employees of the KELER Group for their constructive and cooperative attitude in the past year. It is not only our common interest but also our common merit that the KELER Group undertook its activity on the required high level, thus created the opportunity of future development and further fruitful cooperation with our partners. The experiences we gained in 2012 will hopefully facilitate to achieve our goals of optimizing our services and further expanding the number of Clients and markets in the future.



***Csaba Lantos***

*Chairman of the Board of Directors*

# 2. MARKET ENVIRONMENT

Similarly to the previous period 2012 was dominated by the efforts to maintain the integrity of the European Union that faces a crisis due to the financial issues of the EU member states with high public debt and to recover the stability of the common currency. The financial problems of Greece were in the highlight again at the beginning of the year, even the sustainability of the Euro area membership of the country was questioned, and then Spain admitted a bailout was needed to capitalize its banking system. Generally we can say that the prospects of growth in the majority of member states with balance of payment issues continued to deteriorate.

DJIA, the US equities index with a long history increased by 7.26% in 2012 compared to the closing index value of the previous year and finally closed the year at 13 104.14 points. At the same time, the indices of the major European stock markets also soared: the DAX in Frankfurt increased by 29.06%, while the London FTSE strengthened by 5.84%. As a result the closing value of the DAX was 7 612.39 points, while the FTSE was at 5 897.80 points on the last trading day of 2012.

In 2012, the international FX markets continued to witness a weak Euro. During the year the FX rate of the common European currency against the Swiss Franc could not leave the 1.2 floor determined in the framework of the joint central bank and European Central Bank cooperation. In the subject period there were only 8 days when the Euro was quoted higher than the closing level of the previous year of 1.2149 and at the end of year the rate was 1.2084. The Euro / US Dollar rate produced a much more spectacular chart. Early in the year it seemed the Euro will recover, however, after sliding from the 1.3465 level by mid-July it was again very week and nearly at the CHF rate. However, investors slowly regained confidence and the rate gradually reached its closing level of 1.3205 that is a strengthening of 2.05% compared to 2011.

In line with the trend of the previous period the exchange rate of our national currency against the Euro reached an all-time high of 321.93 right at the beginning of the year. However, the weakening trend did not last as by mid-February the rate was already at around 290. Although from this level it moved towards 300 on two occasions, by the second half of the year the rate moved between 280 and 285 with 276.07 as the local minimum. In the last month of the year the demand for the HUF weakened and the HUF closed the year at 291.29. At an annual level this is a strengthening of 6.38% compared to 2011. The CHF/HUF rate moved parallel with the Euro rate, at a lower level. The all-time high CHF /HUF rate was 264.15. Only the summer months brought a strengthening trend that proved permanent, followed by stagnation when the HUF recovered and reached 228.94. At the end of the year the NBH mid-rate of the weak Forint against the Swiss Franc was 241.06. The American currency moved along a similar curve, however, in terms of proportions the Dollar rate covered a somewhat wider range. It was also at the beginning of the year when the Forint was at its weakest (250.28) against the USD, followed by a slide of similar magnitude in May. After the summer turnaround the exchange rate peaked at 211.36. The slightly higher year-end closing value at 220.93 corresponds to a Forint strengthening of 8.21% compared to 2011.

In 2012 the Monetary Council of the National Bank of Hungary changed the base rate on five occasions. This meant a base rate continuously decreasing by 25 bps per month from the end of August, owing to this the base rate dropped to 5.75% in less than 6 months from its opening value of 7.00%.

Although to a lesser extent but the significant shifts observed last year in the structure of the group of investors financing the Hungarian public debt continued. Besides the annual increase of 17.48% to HUF 17 512.9 billion of the outstanding volume of government securities denominated in HUF, the holding of foreign investors continued to increase. While at the end of 2011 27.29% (HUF 4 069.8 billion) of outstanding government securities were held by foreign investors, this share increased to 28.84% (HUF 5 050.4 billion) by the end of the year. As far as the maturity structure is concerned the share of securities with less than a year to maturity was about 45-50% in the past year. The proportion of securities with more than 2 years to maturity was at about 10%, while there was a shift in favor of securities with 2 to 5 years to maturity in the group of instruments with longer maturities.

The BUX, the equities index of the Budapest Stock Exchange (hereinafter: BSE), closed 2012 at 18 173.20 points that is 7.06% higher than the closing value of the previous year. The index reached its annual peak in the first quarter already when from 16 107.72 points in early February it soared by 23.55% to 19 900.88 points in one month. However, the rally did not last: the BUX slowed down by the end of May and lost nearly 20% when it reached its annual lowest value of 15 978.64. Apart from a slight correction in November this was followed by a less intense but rather permanent rise in the second half of the year that determined the closing value of the index.

### Domestic Energy Markets in 2012

As far as the energy markets are concerned 2012 was an eventful year as the numerous changes in regulations often presented major challenges for the enterprises operating in the energy market.

In 2012, the key changes in the energy markets were as follows:

- The European energy policy efforts focus on the creation of the uniform market, the target date to implement this uniform market is 2014. Accordingly, Hungary also took the necessary measures: thus following the establishment of the Hungarian power exchange in 2010, Hungary as a third party joined the already coupled Czech and Slovak power markets. In the following years new markets may be linked in the interest of continued successful cooperation by the three participants.

- In order to ensure transparent trading CEEGEX Central Eastern European Gas Exchange (hereinafter: CEEGEX), a subsidiary of the Hungarian power exchange was established and started operation in January 2013.

In 2012, the average daily turnover at the Daily Natural Gas and Capacity Trading Market (hereinafter: NFKP) that is the market place for balancing gas trading was 75 million MJ that covers 7.4% of the domestic consumption. This market segment showed significant seasonality that is well characterized by the daily average turnover in the winter of about 100-140 million MJ, while the daily average turnover in the summer is about 35-45 million MJ.

The daily turnover of 1-2 thousand MWh in the day-ahead section of the HUPX power market at the launch of the market reached 20-25 thousand MWh, one third of the domestic consumption by the end of 2012.

**BUX index levels in 2012**

# 3. REGULATORY ENVIRONMENT

In 2012, KELER reviewed bills on the modification of the Tpt. and was involved in the finalization of the bill on the financial transaction tax.

In 2012, the operation of KELER was affected by the following new regulations and regulatory changes:

› new provisions of the Labor Code

› Act CXVI of 2012 on the financial transaction tax,

› NBH Order 18/2009 (VIII.6.) on payment services activity.

As EU regulatory implementation:

› The Regulation on OTC derivative transactions, central counterparties and trade repositories (hereinafter: EMIR) took force.

## GENERAL MEETING

The annual ordinary general meeting of KELER was held on 29 May 2012. The agenda items of the general meeting included among others the following topics:

› report by the Board of Directors on its business activity in 2011,

› acceptance of the financial statements and the consolidated financial statements in line with the International Financial Reporting Standards (IFRS),

› election of the members of the Board of Directors of KELER and determination of their remuneration (Mr. Csaba Lantos, Mr. Csaba Balogh, Ms. Margit Brauner, Mr. György Dudás, Mr. Zsolt Katona, Mr. Gergely Kóczán, Mr. Hannes A. Takacs),

› election of the members of the Supervisory Board and determination of their remuneration (Mr. Lajos Bartha, Mr. Attila Tóth, Mr. Lóránt Varga, Mr. Georg Zinner),

› election of the auditor of KELER and determination of its remuneration (KPMG Hungária Ltd.).

The annual ordinary general meeting also passed a resolution on the amount and the expiry date of the joint and several liability undertaken in respect of KELER CCP: the amount of the joint and several liability as of 28 August 2012 is HUF 8 billion and the expiry date is the 90th day after the annual ordinary general meeting closing the year 2012.

If during the term of the joint and several liability KELER CCP can replace a part or the entire amount of the liability undertaken by KELER by increasing its share capital, at the request of KELER CCP KELER will reduce the amount of the liability undertaken with the amount of the share capital increase with immediate effect.

# 4. BUSINESS RESULTS OF KELER

Source: KELER Ltd.'s Hungarian Statutory Financial Statement - individual (not consolidated)

During the financial year of 2012, there were again growing fears of recession all over Europe. Despite extended talks with the IMF the market have not change its view of Hungary. The financial plan of 2012 was based on the stagnating yields experienced in 2011, the change to a more cautious interest rate policy in line with market expectations and a slight increase in interest rates. In summary, we can say that the results from financial activity exceeded expectations, while results from services remained well below the planned level.

The results from financial activity (HUF 2 725.1 million) were 62.8% higher than planned due to the joint effect of higher than planned realized interest rate differences and income from trading.

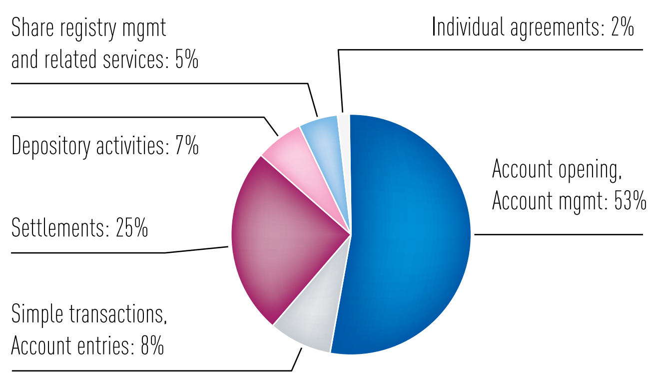
Results from services below plan are due to income below plan (HUF 4 712.4 million, 93.9%) that even the major savings in the costs of operation could not improve to reach or exceed the planned figure. Similarly to previous years income from account management continued to play a key role but failed to reach the planned level. Income from guaranteed market settlements also remained below plan as the favorable trend in energy market settlements could not compensate the low multinet and derivative turnover. Transaction and issuer income were slightly below plan, while income generated by individual agreements produced income above plan.

Total operating expenses amounted to HUF 4 684.2 million, 95.8% of plan. Cost savings were realized in commissions paid and costs of intermediated services, general administration costs and amortization.

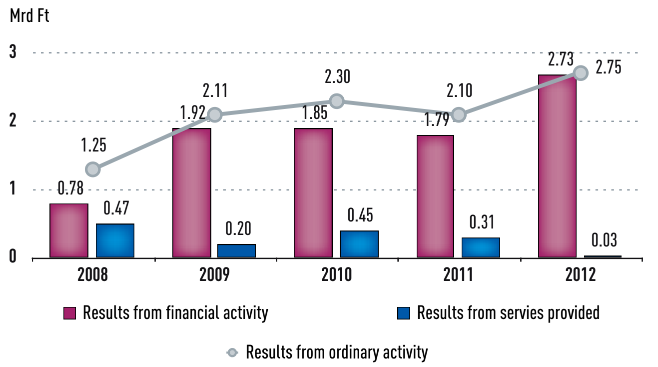
Ordinary business result that is the total of results from financial activity and services provided amounted to HUF 2 753.3 million that is 153.2% of the planned amount. In the absence of extraordinary items the ordinary (business) result equals profit before tax. The value of the ROE indicator[1] is 11.2 %.

After deduction of the amount of tax payment obligation (HUF 500.7 million) and the general reserves (HUF 225.3 million) **profit for the period is HUF 2 027.3 million.**

**Structure of revenues from services | 2012**




**Results from financial activity, services provided and ordinary activity 2008-2012**




The profit before tax in 2012 exceeded the profit before tax in the previous year, primary owing to the outstanding results of the financial activity.

[1] Profit for the period after tax (HUF 2 252.6 million)/equity capital at the beginning of the year (HUF 20 138.1 million) = 11.2%

| PROFIT ADN LOSS FIGURES (in HUF million) | | | | | |
|---|---|---|---|---|---|
| No. | Item description | 2011. Actual | 2012. Plan | 2012. Actual | 2012 Actual / 2012 Plan (%) |
| **A.** | **Profit (or loss) of financial activity (A.=1.+2.+3.+4.)** | **1 788,6** | **1 673,7** | **2 725,1** | **162,8%** |
| B./1. | Comissions and fees received (B./1.=5.+6.+7.) | 4 594,2 | 4 625,2 | 4 307,5 | 93,1% |
| 5 | Domestic income realized based on fee schedule | 4 118,4 | 4 155,4 | 3 854,3 | 92,8% |
| 6. | Income recognized as export (Fee schedule + Individual agreement) | 166,4 | 180,0 | 158,7 | 88,2% |
| 7. | Income from services based on individual agreement and other services | 309,4 | 289,8 | 294,4 | 101,6% |
| B./2. | Other income (B./2.=8.+9.) | 356,0 | 390,8 | 404,8 | 103,6% |
| 8. | Income from other financial and investment services (intermediated services) | 2,7 | 2,4 | 3,5 | 147,9% |
| 9. | Other income (from non-business services) | 353,2 | 388,4 | 401,3 | 103,3% |
| B. | Income from services activity (B.=B./1.+B./2.) | 4 950,2 | 5 016,0 | 4 712,4 | 93,9% |
| 10. | Commissions and fees paid (payable) | 868,1 | 900,2 | 738,2 | 82,0% |
| 11. | General administration expenses | 2 747,4 | 2 946,4 | 2 898,6 | 98,4% |
| 12. | Depreciation and amortization | 711,7 | 704,1 | 695,2 | 98,7% |
| C. | Total costs of operation (C.=10.+11.+12.) | 4 327,3 | 4 550,6 | 4 331,9 | 95,2% |
| D. | Other expenditures | 312,9 | 341,5 | 352,3 | 103,2% |
| **G.** | **Result on service activity (G.=B.-F.)** | **310,1** | **123,9** | **28,2** | **22,7%** |
| **H.** | **Result on ordinary (business) activity (financial+ services) (H.=A.+G.)** | **2 098,7** | **1 797,6** | **2 753,3** | **153,2%** |
| **I.** | **Extraordinary resul** | | | | |
| **J.** | **PROFIT (OR LOSS) BEFORE TAX (J=H+I)** | **2 098,7** | **1 797,6** | **2 753,3** | **153,2%** |
| 13 | Corporate Tax (10% up to HUF 500 million, 19% above HUF 500 million) | 355,7 | 296,6 | 500,7 | |
| **K.** | **PROFIT (OR LOSS) FOR THE PERIOD (K.=J.-13.-14.-15.)** | **1 743,0** | **1 501,1** | **2 252,6** | |
| 16 | General reserves (10% of profit (or loss) for the period) | 174,3 | 150,1 | 225,3 | |
| **L.** | **NET RESULT (L.=K.-16.)** | **1 568,7** | **1 351,0** | **2 027,3** | |

# 5.TREASURY

From the point of the operation of the Treasury 2012 was an outstandingly successful year. Treasury closed the year with a profit of HUF 2 725.1 million, that is 63% above the planned profit of HUF 1 673.7 million. One of the reasons of the better than planned Treasury performance is the policy of interest rate reduction that gained momentum in the second half of the year.

Government securities had a share of 98% in the asset structure; interbank deposits represented less than 0.5%. There was a significant restructuring in the government securities portfolio in favor of securities with less than one year to maturity, the overwhelming majority of this segment was made up by fix rate government securities and NBH bonds. The average duration of the government securities portfolio was within one year. The average annual yield of the asset portfolio reached 8.89%. The average proportion of obligatory reserves within the total asset portfolio was slightly more than 1.5%.

In addition to trading government securities Treasury was an active player in the government securities lending market in 2012 also. As a result of Treasury continuously expanding both the domestic and the international customer base by the end of the year the total repo turnover reached HUF 1 167 billion.

# 6. CLEARING HOUSE AND CENTRAL DEPOSITORY ACTIVITY

**REGULATED MARKET SETTLEMENT**

In October 2011, the BSE launched the BÉTa Market (BSE Alternative Market), its new MTF market. At the beginning the equities of 10 companies incorporated outside Hungary were traded, during a short period of time the number of listed securities reached 23. In the wake of interest shown in the products the BSE launched futures trading in the 10 most active securities from May 2012.

In addition to the listing of new shares in the spot securities market of the BSE, the market showed increased interest in certificates that was evidenced by the growing number of listed products. The derivative market was pepped up by the listing of BÉTa futures shares and the widening range of products.

On 2 January 2012, MTS Hungary, the new government securities trading platform created for primary dealers successfully started operation. In the interest of finalizing the terms of trading the cooperation of the Government Debt Management Agency (hereinafter: ÁKK) and Euro MTS started in the autumn of 2011, as a result and since the launch of the market the KELER Group offers services to an MTF market incorporated abroad. At MTS Hungary all primary dealers compliant with the terms of the ÁKK have membership and are active participants.

Based on consultation with market participants from 4 June 2012 the execution cut-off time of spot securities transactions with multinet settlement was changed to 14:00 hrs. As a result of the modification the settlement risk of securities transactions decreased further from the earlier settlement risk level that was already low.

The introduction of new markets and products fits well the clearing and guarantee undertaking structure, thus following regulatory harmonization the offer side could be expanded quickly and securely.

The NFKP cleared by the KELER Group was characterized by stabilization in 2012. The Capacity Flexible Independent Instrument introduced in mid-2011 was the final touch to the product range offered. From the point of clearing the KELER Group focused on business process fine-tuning and put the emphasis on improved service quality to customers. In order to achieve this goal bilingual (Hungarian-English) clearing statements were introduced and the calculation of the financial position limit was modified.

As a milestone of the energy market non-clearing membership services, following the clearing of the day-ahead and the futures markets of the HUPX, the KELER Group clears EPEX SPOT market trades thus providing its customers access to the German, French and Swiss energy markets.

From the middle of the year the energy market clearing model changed, primarily with respect to the fulfillment of the collateral requirement – as a result the clearing security of the market increased further.

In the interest of providing higher level energy market clearing services the new energy market clearing system was planned and implemented in the summer of 2012.

After two and a half years of the launch of NFKP, the creation of CEEGEX added a new platform to the domestic gas market segment. The gas exchange selected KELER CCP as its clearing house and from the autumn of 2012 a thorough and intensive period of professional, regulatory and operational work started in order to clear the new market. The KELER Group created a new real-time clearing system to serve CEEGEX, the new system went live with the launch of CEEGEX on 2 January 2013.

## 2012 STATISTICS AND RATIOS OF THE GUARANTEED REGULATED MARKETS

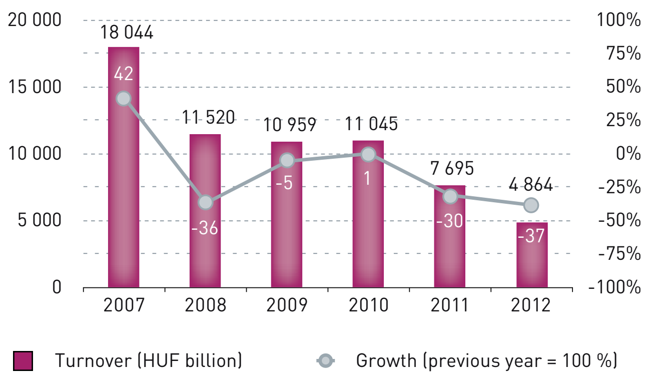
### *BSE Cash Market*

The aggregate single counted cash market turnover of the stock exchange of HUF 2 509.1 billion is a decrease of 40.6% compared to 2011, simultaneously the average daily turnover dropped to HUF 10.2 billion from HUF 16.7 billion a year earlier. The aggregate turnover in the equities market, a key trading segment of the cash market suffered a decrease of 36.9% compared to 2011 and amounted to HUF 2 425.5 billion in 2012, thus the average daily turnover in the equities market was HUF 9.9 billion as opposed to HUF 15.2 billion in the previous year. The turnover in equities made up 96.7% of the total market turnover. Despite the strong contraction in turnover a smaller level of decrease could be seen in the number of cash market transactions at the stock exchange: the number of transactions was 1 845 987 in 2012 compared to 2 608 683 in 2011, this was a drop of 29.2%. The number of transactions in equities fell by 30.2% compared to the previous year. In terms of average daily stock exchange transaction numbers this means 7 534 transactions in 2012 compared to 10 311 transactions in the previous period, while the daily average number of transactions in equities was 6 652.

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| Turnover* (HUF billion) | 18 044 | 11 520 | 10 959 | 11 045 | 7 695 | 4 864 |
| Number of transactions (in thousands) | 1 655 | 1 950 | 3 304 | 2 612 | 2 335 | 1 639 |

** double counted | Source: BSE Annual Statistics 2012.*

**BSE cash market equities turnover 2006-2011 (double counted)**




### *BÉTa Market*

In 2012, the first full business year the total turnover of international equities listed at the BÉTa market reached HUF 6.6 billion in 9 125 transactions. In the previous year (during 2 months) 1 050 transactions were made, the total turnover was HUF 1.3 billion.

### *Derivative Market*

The aggregate derivative market turnover of HUF 1 894.1 billion represents a decrease of 31.6% compared to the previous year. In the annual turnover index- and equities-based products had a share of HUF 629.8 billion (33.3%), while FX-based products accounted for HUF 1 232.1 billion (65.0%). At an annual level the turnover in index- and equities-based products decreased by 47.2%, while the decrease was 20.1% in the turnover of FX products. The turnover in commodities-based products was HUF 32.2 billion; this is a decrease of 9.3% over the previous period.

| Product type/transaction type in 2012 | (HUF billion) |
|---|---|
| Index-based futures | 147.9 |
| Equities futures | 481.9 |
| FX futures | 1 216.8 |
| Interest futures | 0.0 |
| BUX option | 0.0 |
| Equities option | 0.0 |
| FX option | 15.3 |
| Commodities futures | 32.2 |
| Commodities option | 0.0 |
| **Total** | **1 894.1** |

*Source: BSE Annual Statistics 2012*

### *MTS Hungary*

At the MTS Hungary spot government securities market 1 844 transactions were concluded in 2012 in the value of HUF 760.6 billion.

### *NFKP Market*

The single counted gas turnover of the NFKP market in 2012 was 27.52 billion MJ; at market value this represented HUF 90.47 billion. Compared to the previous period the volume traded decreased by 8.6% (30.11 billion MJ), while the value traded increased by 3.6% (HUF 87.33 billion).

*HUPX and EPEX SPOT Market*

In 2012, in the HUPX and the EPEX SPOT spot markets the KELER Group cleared altogether 5.84 TWh power, the market value of this amounted to HUF 85.5 billion. 98.52% of the turnover cleared related to power traded at HUPX and delivered in the Hungarian electrical grid, 4.21 TWh of this was HUPX spot market trading, 1.55 TWh was futures physical delivery. In 2011, HUPX spot trading reached 1.95 TWh (the value traded was HUF 32.0 billion); while 0.11 TWh was involved in futures physical delivery (the value was HUF 2.1 billion). The volume of EPEX SPOT trading cleared is several orders of magnitude lower at 0.09 TWh with a value of HUF 1.15 billion. The double counted annual spot market power turnover of the HUPX in 2012 was 12.66 TWh; based on this figure the KELER Group had a market share of 33% in the international competition.

In the spot market of HUPX the Czech, the Slovak and the Hungarian power markets were coupled in September 2012 that also boosted market turnover.

In 2012, the first full year of the HUPX physical futures market the futures turnover cleared by the KELER Group was 2.91 TWh, the value calculated at trade price amounted to HUF 44.8 billion, while in 2011 the cleared turnover was 0.68 TWh with a value of HUF 11.7 billion. In 2012, the annual double counted turnover of the futures market at HUPX was 12.58 TWh; based on this figure the KELER Group had a market share of 25%.

### OVER-THE-COUNTER SETTLEMENT

In 2012, the turnover of KELER related to OTC trades with gross settlement, calculated at purchase price was HUF 190 670 billion. Government securities accounted for HUF 188 289 billion of this turnover. This turnover was generated by 94 thousand deals; the total number of OTC deals concluded was 163 thousand.

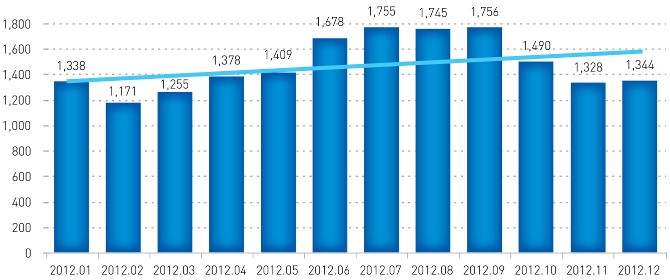
### INTERNATIONAL SETTLEMENTS

The earlier suspended business development needs were reviewed primarily due to the increase in custody (outflow) income related to international securities and the decrease of business line related costs and in the interest of improved service level; a large part of these needs together with a technology upgrade will be implemented in the first half of 2013 to increase the quality of international settlements.

The new standards issued by SWIFT and primarily affecting corporate action management related business communication were introduced. The new event codes and the termination of certain codes within the existing block structure and the introduction of a new block facilitated more sophisticated and detailed flow of information.

In line with regulatory changes from 2013, KELER provides custody services for the National Deposit Insurance Fund and the Investor Protection Fund. KELER successfully completed the legal, professional, business and IT preparatory phases to take over these two portfolios.

**Cross-border securities kept in KELER end of month value in million EUR in 2012**




Due to the drawn-out economic crisis this field was characterized by very strongly decreasing client activity in 2012. The number of cross-border orders fell by about 13%, after the nearly 6 000 transactions settled in 2011 only 5 200 orders were settled in 2012, while the value of international securities held dropped from EUR 1.43 billion from last year to EUR 1.37 billion in 2012.

Regarding the domestic (inflow) settlements of non-resident clients the value of the portfolio in custody exceeded HUF 640 billion that is a contraction of less than 4% compared to the previous period, however, in terms of transaction numbers only 3 600 orders were executed in 2012 after nearly 5 000 transactions in the previous year.

In 2012, the total settlement volume of transactions concluded at the Deutsche Börse and managed by KELER exceeded EUR 235 million that is nearly 50% higher than the total volume last year (EUR 160 million). The number of transactions was nearly 14 thousands; this is an increase of 40% over the figure in 2011.

### CENTRAL SECURITIES DEPOSITORY ACTIVITY

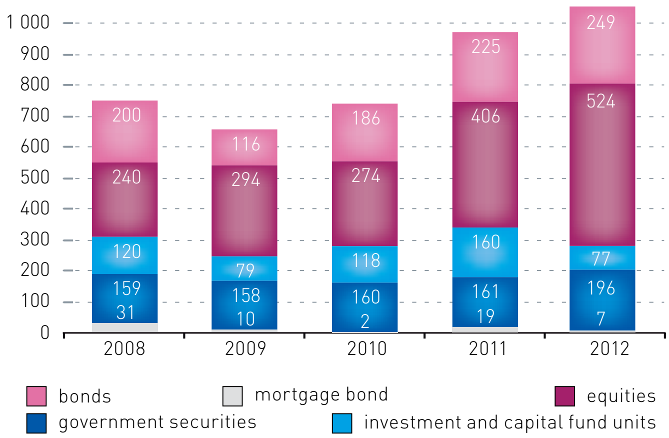
*Management of dematerialized securities*

As of 31 December 2012, there were 3 935 live securities series were registered in the securities accounts kept by KELER, similarly to the earlier periods this continues to show an increase compared to the 3 415 series as at 31 December 2011. The rate of increase was 15.22%.

The total nominal value of dematerialized securities held as at 28 December 2012 was HUF 26 105 013 952 thousand, this is a growth of 13% over the total nominal value of 2011.

The large-scale growth in the portfolio of dematerialized securities was influenced by the considerable increase of the equities and government securities portfolios that exceeded the decrease in the portfolio of mortgage bonds and bonds. The contraction of the bond portfolio was the result of bond redemptions arising from the consolidation of municipalities with less than 5 000 inhabitants. The equities portfolio followed the increasing trend of last year: the portfolio grew as the number of equities series increased.

### Number of demat security series issued by securities type 2008-2012




Change in demat security volume by security type

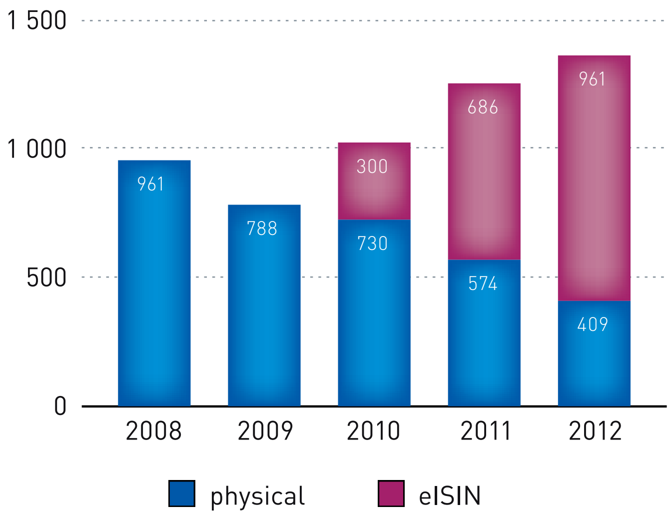
| | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| morgage bond | -11% | -6% | -17% | -9% |
| government security | 9% | 2% | 1% | 17% |
| investment and capital fund unit | 7% | 21% | -14% | -4% |
| equity | 10% | 4% | 17% | 25% |
| bond | 34% | 33% | 11% | -8% |

### *Issuance of securities codes*

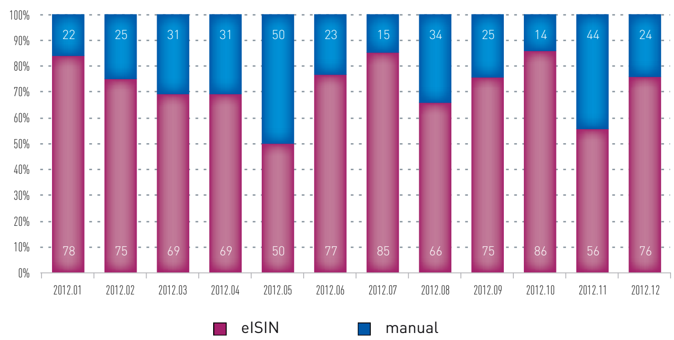
In line with the trends of past years in 2012 there was an increase of 9% (1 370) in the number of ISIN requests by customers compared to 2011.

Due to the highly popular eISIN service launched in the spring of 2009, already 70% of ISIN requests submitted to KELER were made electronically in 2012.

### ISIN requests 2008-2012




### ISIN requests in 2012



## GENERAL DEPOSITORY ACTIVITY

### *Custody of physical securities*

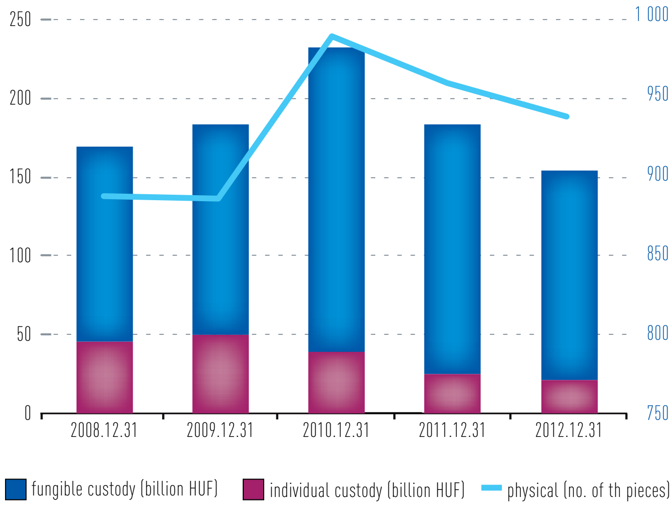
Based on the actual figures the volume of physical securities in custody decreased by 17% in 2012 compared to the previous year. The reason for this decrease is the conversion of physical securities in both fungible safekeeping (HUF -2 949 838 THSD) and individual custody (HUF -28 815 716 THSD) into dematerialized securities.

In December 2012, altogether 19 963 pieces of securities that became invalid as a result of conversions, with a total value of HUF 34 240 110 E thousand, were destroyed. After these cancellations the total stock of physical securities decreased by HUF 31 765 554 THSD.

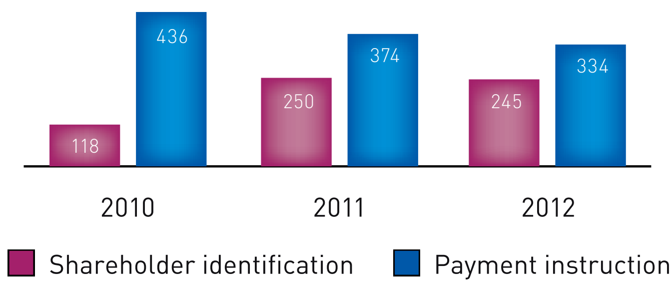
### *Corporate action management*

In 2011 and 2012, nearly the same number of payment orders related to due date payments and shareholder identification requests due to share registry update were submitted by issuers to KELER.

**Physical securities custody 2008-2012**




**Corporate actions 2010-2012**



# 7. PROJECTS OF HIGH PRIORITY AND SERVICE DEVELOPMENTS

### BÉTa Futures Market

In the autumn of 2011, the Budapest Stock Exchange launched the BÉTa Market, its multilateral trading facility where European blue chip equities can be traded with the guarantee undertaking of KELER CCP. Since May 2012, a further step forward was taken to develop the BÉTa Market: individual equities based futures contracts were introduced where the underlying contracts are the international equities traded at the BÉTa Market. The products are listed in the futures market of the BSE; therefore investment firms (banks, broker firms) with access to the futures contracts of the Derivative Section can trade them. Similarly to trading in the BÉTa Market the currency of trading and clearing is HUF, products can be traded with physical fulfillment.

Similarly to the BÉTa spot market liquidity in the BÉTa futures market is provided by the participants acting as market makers. The new products widened the range of investment products available through the BSE and the KELER Group.

### MTS market settlement

In the wake of the decision of the Government Debt Management Agency (ÁKK) as of 2 January 2012 secondary trading and primary dealership in government securities are undertaken at the trading platform (MTS Hungary) of EuroMTS instead of the BSE, while the primary market (classic and repo deals) and repurchase auctions continue to be managed in the MMTS system of the BSE. Trades made in the EuroMTS market, similarly to trades made earlier at the BSE, are settled with multilateral netting, with guarantee undertaking by KELER CCP. In the interest of meeting the needs of market players the KELER Group jointly with the ÁKK established a special lending system to increase the security of clearing and to make sure the new platform operates successfully. By the end of 2012, the number of primary dealers in the MTS Hungary market increased to 16.

### CEEGEX

In the past years, the KELER Group continuously expanded the range of products offered with services that cater to the needs of customers beyond traditional activities and match the directions of development defined by the KELER Group.

The KELER Group was involved in the preparation for the domestic power exchange and made sure that in line with the international standards and the requirements of domestic and international customers power market transactions are cleared in a secure, quick and efficient manner. In 2012 the KELER Group reached a new milestone in terms of energy market participation when HUPX Hungarian Power Exchange Company Limited by Shares mandated the KELER Group to guarantee transactions made at CEEGEX to be established by HUPX Ltd. and to provide clearing and settlement services related to trading.

The KELER Group had less than 6 months to create the technical conditions and the legal background required for the secure, reliable and efficient long-term operation of the natural gas trading platform in line with international practice.

Spot and physical future markets were created at the gas exchange launched on 2 January 2013, at the time of launch only for the natural gas products, later other products may be listed as well.

### Restructuring of clearing and guarantee undertaking within the KELER Group

The operation of the KELER Group reached a major landmark on 1 January 2013 when the domestic clearing house in full compliance with the European practice was also established after the parent company KELER transferred the entire guaranteed market clearing business line to KELER CCP. The transfer ended a long, two-phased process: KELER CCP, acting as central counterparty, a function created in 2008, is in charge of guaranteed market clearing also as of 1 January 2013. The transfer of the activity affected the entire organizational and regulatory structure of the KELER Group.

Since January 2013, the central securities depository and banking services provided by KELER and the clearing and guarantee undertaking by KELER CCP have been fully segregated; these changes were mirrored in the separate General Business Rules of the two organizations and the new contracts entered by the KELER Group and clients.

### eDEMAT

In the interest of increasing the level of service provided to clients and to increase the efficiency of operational processes, in the second quarter of 2011 KELER decided to expand the range of online services to facilitate the easier, simpler and quicker management of dematerialized securities by issuers. The tender for suppliers was completed and the appropriate partner was selected in 2011, additionally the necessary processes were finalized.

Client side developments related to the eDEMAT service went live at the end of 2012; as a result our clients could use the functions of the systems from November 2012. The functions providing more efficient support to the internal processes at KELER are planned to go live in the second half of 2013.

### eInvoice service

From the beginning of 2012 clients able to receive electronic invoices had the opportunity to request the KELER Group to issue electronic invoices with digital signature and time stamp, in PDF or XML file format in line with the requirements of the National Tax and Customs Office. The development aiming the electronic management, storage and archiving of outbound invoices at KELER was implemented.

### Intraday clearing several times a day (Inter-Giro2)

The Payment System Council created by the financial and regulatory sectors stated that multi-phased intraday financial clearing several times a day is to be launched on 2 July 2012. The project affecting the providers of payment services in Hungary was successfully completed by this deadline; consequently from the second half of 2012 payment orders are executed within four hours of receipt.

KELER was an active player in the national project and met project requirements on time, in accordance with internal and client requirements.

### Financial transaction tax related developments

On 9 July 2012, Parliament passed the act (Act CXVI of 2012) on the introduction of the financial transaction tax that entered into force on 1 January 2013. KELER, as a provider of payment services incorporated in Hungary is under the scope of the act, therefore KELER is liable to pay financial transaction tax on transactions initiated by KELER and its clients after 1 January 2013, with particular regard to transfers, cash paid out and payment of fees and commissions. The financial tax payment obligation is to be established, reported and met monthly, until the 20th of the month after the day of execution.

Developments related to the financial transaction tax covered all systems involved in the management of cash accounts. During the project KELER created a flexible, parameterizable structure allowing quick adjustment to eventual changes in the environment. The necessary developments were finalized by the deadline of 31 December 2012; the report was completed in the first quarter of 2013 due to the lack of mandatory requirements on form and content.

### SWIFT 2012 Standards Release (SR)

Compliance with the annually issued new standards of SWIFT required major developments in the business communication systems of KELER also in 2012.

### Establishment of data warehouse

The data warehouse project is a development of several years and various phases. In line with plans in 2012 KELER focused on the reporting and the analysis of business data, as a result several reports were prepared with the help of the application. The project continues in 2013 also, the main objective is to provide full-scale support to reports to be completed by KELER, however, at the same time steps will be taken to prepare for the integration of the general ledger and the fee module, as well.

### KID modernization

In 2011, KELER started the modernization of the KID business communication system. The goal of modernization, in addition to technological modernization, is to provide the system in English and to modernize the interface itself.

Developments are implemented in several phases: 2011 and 2012 focused on planning, specification and development, going live is planned for 2013 and 2014.

### Wide Application Routing Platform (WARP)

The prolonged economic crisis posed new challenges to the capital market in 2012 also and aspects such as increased efficiency and standardization came to the forefront. KELER responded proactively to changed needs and jointly with market participants (fund managers, distributors, custodians) started a development to make sure that the opportunities offered by investment funds are available to everyone interested in a simple, more efficient and more economic manner.

→

The project launched in 2012 and aiming to introduce Wide Application Routing Platform (hereinafter: WARP), a new settlement and order routing system helps compliance with the new circumstances. The new, integrated platform directly links the fund manager, the distributor selling and redeeming the investment fund units, the custodian in charge of making sure that the fund operates in line with the requirements of the regulation and its own management rules and KELER that clears and registers securities movements. Automation can help decrease the execution times related to the sale of investment fund units, as a result fund managers can use invested funds more quickly and efficiently, in the case of redemption investors will receive funds sooner.

The project consists of several, predefined phases, with the following major landmarks: from September 2012 specification and development, in April 2013 the basic version goes live and introduction of the WARP application with extended, ancillary functions in the second half of 2013.

**Strategic Modernization Program**

In June 2010, KELER joined the TARGET2-Securities (T2S) project, the initiative of the European Central Bank by signing the Memorandum of Understanding. Under the scope of T2S the standard European securities settlement system will be created until 2016, in support of which the KELER Group was an active participant in the international work in 2011 also when jointly with domestic market players the opportunities and the consequences of the introduction of T2S were investigated. In June 2012, simultaneously with a decision in favor of entering T2S and by signing the T2S Framework Agreement KELER launched the Strategic Modernization Program (SMP), under the scope of which there are two tightly linked projects: the Change of Account Management Systems Project and the T2S project.

The Change of Account Management Systems Project is responsible to modernize the account management systems of KELER that are nearly 20 years old, as a result until the end of 2014 it creates the conditions of operation of a more modern, competitive central securities depository that provides higher quality services to clients in the years to come. The T2S project is responsible for the assessment of the requirements of T2S and for the integration of these requirements into the systems of KELER, creation of the business strategy in compliance with the obligations arising from the agreement signed by KELER and the European Central Bank. Based on the planned schedule KELER joins the international platform in the second half of 2016.

KELER plans to implement the Program in three phases between 2012 and 2016:

1. Assessment, system selection (July 2012- June 2013) – selection of the new account management system(s) and supplier, detailed assessment of T2S requirements.

2. Implementation of the new system (July 2013 – early 2015) – introduction of the new account management system(s), preparation to enter T2S.

3. T2S entry (2015-2016) – international tests with the Frankfurt based T2S platform, jointly with several European central securities depositories, then the T2S-KELER link goes live.

Currently and as part of the preparation to enter T2S, KELER is completing a procurement process to obtain the new securities clearing system that is in line with future market requirements.

# 8. CLIENT RELATIONS

### Client Forums

2012 was a busy period in terms of events related to keeping contact with our clients. In this year, KELER organized events for groups of clients other than traditional custodians also.

With the establishment of the Hungarian TARGET2-Securities National User Group (hereinafter: NUG) in the summer of 2011, the domestic capital market participants were involved in the assessment of the impacts of T2S entry on the Hungarian market. The working group is in charge of representing local market player towards the ECB and of strengthening T2S entry related communication between the players of the capital market and KELER-NBH.

There were two working groups formed within the NUG, both are based on voluntary participation: the Settlement Working Group has 20 members, the Corporate Action Management Working Group has 11 members. Working groups convene monthly or bi-monthly since their establishment.

In June 2012, KELER established the Market Implementation Group (hereinafter: MIG) with the objective of forming an organization to involve a wide range of market participants (issuers, custodians, brokers, central securities depository, stock exchange) to facilitate the integration of corporate action management standards in domestic processes.

A smaller working group operating under the MIG was created to complete the gap analysis of domestic practice versus international processes and to complete more efficiently the tasks related to the introduction of standards.

Additionally KELER is a regular participant of semi-annually held European MIG (E-MIG) meetings, the European level meeting of national Market Implementation Groups (MIG).

In June, a project initiation client forum was held related to the WARP order routing system going live in April 2013 to introduce the system to be developed, its background and links with market participants.

### Client satisfaction survey

In 2012 the traditionally bi-annual personal and online client satisfaction surveys were supplemented with a purely online survey to learn about the comments and needs of capital, gas and energy market clients related to the services provided by the company. Based on the feedback received on the questionnaires of 2012 the KELER Group can state that the positive opinion of clients about the KELER Group has strengthened further in the past year.

Based on the client needs revealed by the survey action plans and implementation schedules were finalized to make sure that cooperative recommendations, development requirements by clients are efficiently integrated into the operation of the KELER Group.

# 9. INFORMATION TECHNOLOGY

Similarly to past years, 2012 was a period when IT was responsible for a great number of tasks.

IT completed these tasks in line with the business strategy approved and also started to assess the execution of the previous IT strategy and to elaborate the new medium term IT strategy.

The main objective was to ensure planned operation and high level availability of the information technology system supporting business services. During the year the joint availability of KELER systems towards customers was 99.874% that proves the efforts made in this field came to fruition.

In 2012, the major tasks successfully completed by IT were as follows:

- In the interest of increased security of operation the hardware and software environment of the IT infrastructure, particularly the data storage system was continuously updated, in line with the bug fixes released.
- Further technical steps were taken in the field of virtualization in the interest of increased performance and improved client experience. Services offered by KELER run in a fully virtualized environment.
- We continued to replace old system supervision tools to save costs. The uniform solutions facilitate earlier error detection and prompt intervention if necessary.
- Disaster recovery plans (DRPs) were reviewed and for 4 weeks in September IT services were provided by the secondary data center following a planned and rapid switch, after the test we successfully and without error switched back to the primary data center.
- The unified data storage systems helped increase the efficiency of test environments. In the past years the production time of the test environment became faster; KELER is able to operate up to 5 environments in parallel.
- As an active project participant KELER successfully joined the new IG2 – InterGiro2 – national clearing system in line with applicable deadlines; the new system was established to allow the intraday clearing of domestic, electronically submitted payments and aims to accelerate domestic payments.
- In cooperation with CEEGEX the gas market clearing service provided by the KELER Group was launched on time.
- The Energy Market Clearing System (EpER) providing automated IT support to the energy market clearing that earlier required heavy manual support was also developed.
- In line with the strategic purpose of online, secure client servicing the eDEMAT application went live and significantly reduced processing times. This development has a positive impact in terms of cost reduction and easing the environmental burden by channeling turnover towards electronic communication.
- The technical version change of the TRASSET (Treasury system) was completed: the application so far running on two servers and database components were migrated to one server, which improves the security of operation.
- The changes required to comply with 2012 SWIFT standards were executed in line with the schedule, within the timeframe designated by the service provider.
- By the end of 2012, the clearing function was transferred to KELER CCP, related to this the information technology environment of KELER and KELER CCP were logically separated, this separation exercises a positive influence on the security of operation.
- The regulation on central developments was significantly changed, resulting in transparent delegation of authorities of the IT Directorate and the Strategic and Product Management Department, at the same time requirements became simpler, more executable, yet more flexible to adjust to the specifics of the development concerned but continue to ensure that the minimum professional standards are observed.

- Having reviewed all elements of the internal regulatory system within the authority of the IT Directorate 7 out of the 30 regulations were repealed, the remaining 23 regulations were updated. This resulting in a significantly more transparent, executable and up-to-date regulatory environment.

- Following a tender and mandating PwC for the task, the independent audit stipulated in Government Orders 283/2001. (XII. 26.) and 284/2001 (XII.26.) of the 15 business supporting applications of major importance at KELER was completed. An internal investigation was also finalized to gather experience related to the change and incident management processes in order to lay the foundation of modifications during the forthcoming reviews and to further improve processes.

The operation of information technology at KELER was reliably stable in 2012; the goal in the coming years is to provide reliable, plannable and measurable services.

# 10. RISK MANAGEMENT

In 2012, the Risk Management Department of KELER took steps to prepare for compliance with the Basel III directives. The final form of the CRD (Capital Requirement Directive) and the CRR (Capital Requirement Regulation) is not known yet, their introduction planned for January 2013 was postponed for an uncertain period of time. The change in regulations has a major impact on the capital adequacy of KELER as institutions are expected to have a higher level of coverage than earlier. Requirements on the quality of capital also become more stringent, however, this has very little influence on compliance by KELER as own funds are currently made up by primary capital elements only. In addition to capital adequacy, the regulations on liquidity risk management also becomes stricter and poses a great challenge for the banking system. As KELER keeps a large portfolio of government securities that are considered first class instruments from the point of liquidity, no further measures are required to ensure compliance. The planned new indicators were included in the reports prepared during the year and the capital adequacy was determined in line with the changes expected to enter into force.

The internal risk management regulations were reviewed, where required the practice of risk management was supplemented in line with the guidance of the Supervision on the Internal Capital Adequacy Assessment Process (ICAAP).

**Counterparty Risks**

In 2012, KELER played a more active role in the FX market. FX swaps that can be concluded to a limited extent and with a limited group of counterparties were entered daily. Applicable regulations were modified at the end of 2011 already and the practice of managing arising risks was also established.

In the framework of bank rating the counterparties of Treasury were rated based on quarterly and annual audited figures and a proposal was made to the Assets and Liabilities Committee on the risks that can be taken in respect of counterparties.

**Market Risks**

There was no significant change in terms of market risks in 2012. The Risk Management Department completes quarterly yield stress calculations for the asset portfolio, in line with the extent specified in the law. The amount of loss calculated with the stress parameters continue to remain below the level stated in the law. The VaR of the government securities portfolio is calculated daily with both stressed and historic volatilities.

**Operational Risk Management**

The goal of the operational risk management system created by the Risk Management Department is to make sure that they are continuously aware of their own risks, monitor and reduce them as far as possible. Therefore data on past losses are collected and expert estimates are made as to the potential events that occur rarely but may result in great losses.

The second pillar (as opposed to the first pillar) is about the management of operational risks at the level of the KELER Group. The reason for the group level regulation is that although the Basel requirements state that only credit institutions have to manage operational risks, due to the high level of operational reliance between KELER and KELER CCP it is necessary to apply the Basel requirements and directives to KELER CCP on a voluntary basis.

In 2012, the Operational Risk Management Committee (hereinafter: ORMC) held quarterly meetings and discussed the loss events that occurred and the actual operational risks. It took measures to decrease and prevent risks to the extent it was necessary and possible and subsequently monitored the implementation of the measures taken.

By combining the top-down and the bottom-up methodologies in the autumn of 2012 the KRIs (key risk indicators) at each organizational unit of the KELER Group were reviewed and self-assessment interviews that are important elements in the calculation of the capital need were completed. Additionally stress test scenarios and loss parameters impacting the entire KELER Group were defined, the results of these also form part of the capital requirement under the second pillar.

The Supervision published its recommendation on the management of risks arising during trading (Recommendation 1/2012. (I. 6.) by the President of the Hungarian Financial Supervisory Authority on the management of operational risks arising during trading).

The recommendation emphasizes the principle of proportionality and contains operational risk management recommendations in the following three fields:

› corporate governance,
› internal audit system,
› internal reporting.

The ORMC consulted involved players on the recommendation and took the necessary measures to ensure compliance with the recommendation.

# 11. HUMAN RESOURCES

In addition to making sure that KELER provides high quality services daily, in 2012 the main Human Resources tasks included ensuring that the human resources required for important projects and developments were available and the regulatory requirements are complied with.

There were two prominent projects that came with organizational changes also in the course of 2012.

Due to the outstanding importance of the projects of T2S entry and the replacement of the account management systems creating the technical background of the entry, the Strategic Modernization Department, a dedicated area within the Strategy and Client Relationship Directorate was set up as of 1 July 2012. The task of the Strategic Modernization Department is to successfully implement the two projects by taking into account the domestic practice and the international experience.

Owing to changes in the activity of KELER as of 1 January 2013 7 staff members of the Clearing Operations Department were taken over by KELER CCP as successor employer. Due to the changes in the second half of 2012 it was necessary to create Group level regulations covering the employees of KELER and KELER CCP and to complete all preparatory steps related to the employment with succession.

Like in earlier periods in 2012 also we paid special attention to the development of the professional skills of our employees. Internal and external trainings were offered in English language skills, project methodology, and product and market knowledge to develop our staff. Special IT courses were held to strengthen our IT background. We continued to have IT security awareness internal trainings. In 2012, KELER was able to provide the human resources necessary to reach its objectives.

# 12. INTERNAL AUDIT

Internal Audit completed its activities in 2012 in line with the annual work schedule approved by the Supervisory Board (hereinafter: SB) and based on risk assessment and risk analysis and the prevailing operating procedure on Internal Audit. When defining the areas to be covered, the review of processes and controls with inherent risks and high priority was considered an essential aspect. Internal Audit also acted as an obligatory reviewer of new or updated regulatory documents.

In 2012, there were 9 IT / bank security and 9 non-IT reviews undertaken in KELER. Within the reviews completed 13 reviews covered specific topics, one was related to a specific purpose and 3 follow-up audits were completed.

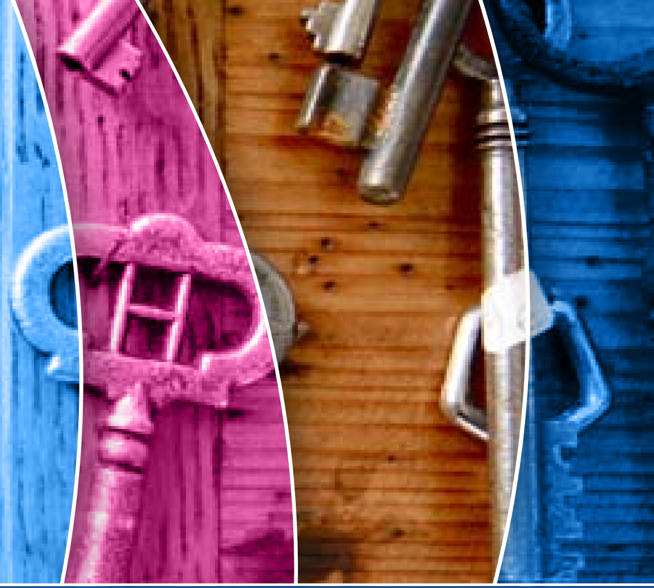
Specific topic reviews covered the following fields:

› Physical securities depository activities;
› Client information, disclosure, complaint management;
› Remuneration policy;
› Trading book management;
› Procurement process;
› Internal capital adequacy process;
› Hardware and software inventory;
› Operation of IT security systems;
› Maintenance of work stations and servers;
› IT security risk analysis;
› Disaster recovery tests;
› Production and use of test data;
› System supervision, management and operation.

The specific purpose review covered the depositing of source codes.

In addition to the above, Internal Audit completed two reviews at KELER CCP based on an outsourcing agreement.

Reviews particularly focused on compliance with the provisions of regulations, internal rules and instructions, the operation of controls and compliance with security requirements; follow-up audits paid special attention to checking the implementation of measures and recommendations deemed to be necessary to remediate discrepancies identified in earlier audits. Follow-up audits checked the tasks of IT reviews completed in 2011 and five non-IT internal audit reviews were also followed up. In order to increase efficiency some specific topic reviews also included the follow-up reviews of the measures recommended earlier in the review reports related to similar topics or in the report related to the field subject to the review.



# 13. SECURITY MANAGEMENT

In 2012, Security Management continued the consolidation activity started earlier and implemented a number of measures in order to introduce modern, convenient and secure user solutions:

- The descriptions of business processes creating value, the catalogue of KELER services by cut-off times and the BCPs and support IT system DRPs to be followed in the case of service and process interruption were updated and tested.
- Security Management tested employee security awareness and approach on various occasions, in the interest of maintaining the appropriate level of awareness trainings were organized to supplement these actions.
- Related to the consolidation of Identity Management (IDM) the operation of the system and related processes were reviewed.
- The introduction of the public key infrastructure with chain certification is nearly completed, as a result electronic signature and certification and confidential electronic correspondence become available for all KELER employees.
- Security Management created the security infrastructure and processes required for remote and home working: on the one hand this significantly reduced the response time to certain errors and accelerated information flows on the other.

# 14. ENVIRONMENT PROTECTION

In the past years, the KELER Group established its own Green Office Program to integrate environment conscious thinking into the corporate culture in the long term, to reduce energy and paper consumption at the corporate level and to create the system of selective waste collection. A number of environment protection correction measures with minor and major resource needs were taken, among them the drastic reduction of paper consumption is a top priority. Additionally, the Group is committed to responsible thinking and the creation a healthy working place is a top priority.

As part of the implementation of the Green Office Program in 2010 the KELER Group joined the Green Office competition of the KÖVET Association where it was awarded the 1st prize in the medium sized enterprises category.

In 2012, the KELER Group joined the 'Ablakon Bedobott Pénz' (How to not waste money) competition of the KÖVET Association: companies taking part in the competition demonstrate that money spent on the protection of the environment is not wasted; it can have financial return and can help environment conscious organizations to realize profit and gain a competitive edge. In 2012 KÖVET announced the competition for the 10th time and the KELER Group was awarded 'The Office Green Savings Special Prize'. The central printing project of the KELER Group was rewarded the Office Green Savings Special Prize – in this project outdated printers were replaced by multifunctional equipment located in the corridors. The goal of the project was to cut down paper consumption and printing costs and to simplify maintenance. The result of the central printing project speaks for itself as within 1 year of the start of the project the paper consumption of the KELER Group dropped by 30%, in other words 1.2 tons of paper and 14 old trees were saved. Having seen the results achieved, the KELER Group will continue to take environment conscious measures as far as possible in the coming years also.

# 15. REPORT BY THE SUPERVISORY BOARD OF KELER LTD. ON THE YEAR OF 2012

In 2012, the Supervisory Board held five meetings and on two occasions passed decisions out of session.

In line with earlier practice risk assessment and risk analysis were completed prior to finalizing the Internal Audit work schedule for 2012, this ensures that the reviews of Internal Audit focus on the activities and the processes with the highest inherent risks.

The Supervisory Board approved the Internal Audit work schedule of the Company and at its meetings during the year it was continuously informed on the implementation of the work schedule.

The Supervisory Board reviewed quarterly reports at its meetings on the activity of the Board of Directors of KELER Ltd. and was informed on the agenda items discussed at the Board of Directors meetings.

In 2012, the follow-up review of tasks with past due dates, stated in the final action plan on the implementation of recommendations by the NBH pursuant to the self-assessment report issued by the NBH on KELER in December 2009 was completed, the annual disaster recovery tests completed in 2012 were reviewed; similarly, the provision of Client information, disclosure, complaint management and the Remuneration Policy of KELER Ltd. were also reviewed. The agenda items of the Supervisory Board included the Remuneration Policy of KELER Ltd.

The Supervisory Board discussed the report on the comprehensive audit of the activities undertaken by the International Settlements Department that is simultaneously the follow-up review of an earlier audit of the unit. Agenda items included the review of taking security inventory and the activities of the Depository, the follow-up review of the Share registry activity and the review of processes of e-ISIN and eDEMAT, two new services.

In 2012, the reports on the follow-up audit of Treasury and Back Office processes and the depositing of the source codes were accepted.

The Supervisory Board accepted the reports on the audit of log analysis; the security settings of servers, work stations, databases by Security Management; the hardware and software inventory; the operation of IT security systems; the maintenance of work stations and servers; the report on the follow-up review of IT Internal Audit tasks with due dates between 1 January and 31 December 2011; the report on the audit of the IT security risk analysis and on the review of test data.

The Internal Audit reports and related action plans discussed by the Supervisory Board included the shortcomings discovered in the audits and the recommended measures to overcome them, the designated responsible persons and the deadline to complete the relevant task. The follow-up reports informed the members of the Supervisory Board on the implementation of these tasks.

Based on reports by the management the Supervisory Board of KELER Ltd. continuously monitored the implementation of the measures recommended by Internal Audit reports.

In order to continuously monitor risks influencing the management of KELER Ltd., the Supervisory Board discussed at its meetings the quarterly reports provided by Internal Audit on the measurement of operational risks and the minutes on the meetings of the Operational Risk Committee.

The Supervisory Board received reports on the activity of the Compliance Officer in 2011 and the work schedule of the Compliance Officer for 2012.

At its meetings, the Supervisory Board regularly discussed periodic reports on the business and management of KELER Ltd.

Based on the Internal Audit reports, the follow-up reports and other materials discussed, the Supervisory Board declares that throughout the operation of KELER processes are regulated, management is in order, and the Board of Directors and the management of the Company make continuous efforts to maintain secure operation at a high level.

In the course of creating procedures and defining directions of development, the Company has strived to facilitate the spreading of up-to-date methods in all areas of the money, the capital and the energy market. The Supervisory Board is convinced that similarly to earlier periods KELER Ltd. has all the personal and the material conditions to meet the challenges of forthcoming years.

The capital structure of KELER Ltd. continues to provide great security to the players of the money, the capital and the energy market that use the services of the Company. Furthermore, we are convinced that the infrastructure necessary to provide high level service quality is at the disposal of KELER Ltd.

The Supervisory Board found that the management of the Company exercised due care with respect to the financial sources entrusted to it. The Supervisory Board of KELER Ltd. reviewed the annual financial statements prepared in line with the Hungarian accounting standards and studied the report by the auditor. Based on these documents the Supervisory Board makes a proposal to the General Meeting to accept the annual financial statements of KELER Ltd. for the year 2012 with total assets/net worth and liabilities of HUF 135 265 770 thsd and net result of HUF 2 027 315 thsd

With respect to the distribution of profit the Supervisory Board supports the proposal of the Board of Directors of KELER Ltd.

Budapest, 24 April 2013

Lajos Bartha
Chairman of the Supervisory Board

# 16. KELER's IFRS Consolidated Financial Statement

## 16.1 REPORT BY THE INDEPENDENT AUDITOR

KPMG Hungária Kft.
Váci út 99.
H-1139 Budapest
Hungary

Tel.: +36 (1) 887 71 00
Fax: +36 (1) 887 71 01
E-mail: info@kpmg.hu
Internet: kpmg.hu

*This is an English translation of the Independent Auditors' Report on the 2012 statutory Consolidated Financial Statements of Központi Elszámolóház és Értéktár (Budapest) Zrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails. This report should be read in conjunction with the complete statutory Consolidated Financial Statements it refers to.*

**Independent Auditors' Report**

To the shareholders of Központi Elszámolóház és Értéktár (Budapest) Zrt.

**Report on the Consolidated Financial Statements**

We have audited the accompanying 2012 consolidated financial statements of Központi Elszámolóház és Értéktár (Budapest) Zrt. (hereinafter referred to as "the Company") and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2012, which shows total assets of MHUF 152,963, the consolidated statement of comprehensive income, which shows profit for the year of MHUF 3,626, and the consolidated statements of changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Hungarian National Standards on Auditing and applicable laws and regulations in Hungary. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG Hungária Kft., a Hungarian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
Company registration: Budapest, Fővárosi Bíróság, no: 01-09-063183

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Központi Elszámolóház és Értéktár (Budapest) Zrt. and its subsidiaries as at 31 December 2012, and of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

**Report on the Consolidated Business Report**

We have audited the accompanying 2012 consolidated business report of Központi Elszámolóház és Értéktár Zrt. and its subsidiaries.

Management is responsible for the preparation of the consolidated business report in accordance with the provisions of the Hungarian Act on Accounting. Our responsibility is to assess whether this consolidated business report is consistent with the consolidated annual report prepared for the same business year. Our work with respect to the consolidated business report was limited to the assessment of the consistency of the consolidated business report with the consolidated annual report, and did not include a review of any information other than that drawn from the audited accounting records of the Company and its subsidiaries.

In our opinion, the 2012 consolidated business report of Központi Elszámolóház és Értéktár (Budapest) Zrt. and its subsidiaries is consistent with the data included in the 2012 consolidated annual report of Központi Elszámolóház és Értéktár Zrt. and its subsidiaries.

Budapest, 23 April 2013

KPMG Hungária Kft.
Registration number: 000202

*Gábor Agócs*
Gábor Agócs
*Partner*

*István Henye*
István Henye
*Professional Accountant*
Registration number: 005674

# 16.2 STATEMENT OF FINANCIAL POSITION

| Consolidated Statement of Financial Position as at 31 December 2012 (All amounts in MHUF, unless stated otherwise) | | | |
|---|---|---|---|
| | | 31.12.2012 | 31.12.2011 |
| Cash and cash equivalents | 5 | 15 149 | 2 548 |
| Placements with other banks | 5 | 7 432 | 6 722 |
| Financial assets at fair value through profit or loss | 6 | 112 568 | 123 263 |
| Receivables relating to clearing and depository activities | 7 | 381 | 425 |
| Accrued interest receivables | | 536 | 603 |
| Current tax assets | | 50 | 72 |
| Trade receivables | 9 | 10 170 | 9 845 |
| Other assets | | 5 096 | 1 139 |
| Other investments | 8 | 20 | 20 |
| Intangible assets | 10 | 1 259 | 1 063 |
| Property, plant and equipment | 11 | 302 | 406 |
| **TOTAL ASSETS** | | **152 963** | **146 106** |
| Placement and loans from other banks | 12 | 93 554 | 96 535 |
| Deposits from customers | 13 | 23 588 | 17 984 |
| Accrued interest payable | | 680 | 755 |
| Current tax liabilities | | 60 | 38 |
| Deferred tax liabilities | 21 | 445 | 131 |
| Accounts payable | 14 | 10 354 | 9 958 |
| Other liabilities | | 393 | 442 |
| **TOTAL LIABILITIES** | | **129 074** | **125 843** |
| Share capital | 15 | 4 500 | 4 500 |
| Retained earnings | | 17 150 | 13 631 |
| Statutory reserves | 16 | 2 170 | 2 054 |
| Non-controlling interest | | 69 | 78 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **23 889** | **20 263** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **152 963** | **146 106** |

# 16.3 STATEMENT OF COMPREHENSIVE INCOME

| **Consolidated Statement of Comprehensive Income for the year ended 31 December 2012 (All amounts in MHUF, unless stated otherwise)** | | | |
|---|---|---|---|
| | | 01.01.2012 – 31.12.2012 | 01.01.2011 – 31.12.2011 |
| Income from clearing and depository activity | 17 | 4 314 | 4 551 |
| Interest incomes | 18 | 9 964 | 5 913 |
| Interest expenses | 18 | (7 425) | (4 050) |
| **Net interest income** | | **2 539** | **1 863** |
| Gains on securities, net | | 1 900 | - |
| Other incomes | | 58 | 128 |
| **Net other operating income** | | **1 958** | **128** |
| Fee and commission expenses | | (192) | (198) |
| Other expenses | | (73) | - |
| Losses on securities, net | | - | (234) |
| Personnel expenses | 19 | (1 667) | (1 567) |
| Depreciation and amortization | 10, 11 | (697) | (713) |
| Other expenses | 20 | (1 742) | (1 967) |
| **Operating expenses** | | **(4 370)** | **(4 679)** |
| **PROFIT BEFORE INCOME TAX** | | **4 441** | **1 863** |
| Income tax expense | 21 | (815) | (276) |
| **NET PROFIT FOR THE YEAR** | | **3 626** | **1 587** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **3 626** | **1 587** |
| **NET PROFIT ATTRIBTABLE TO:** | | | |
| Shareholders of the Company | | 3 635 | 1 559 |
| Non-controlling interest | | -9 | 28 |
| **NET PROFIT FOR THE YEAR** | | **3 626** | **1 587** |
| **TOTAL COMPREHENSIVE INCOME ATTRIBTABLE TO:** | | | |
| Shareholders of the Company | | 3 635 | 1 559 |
| Non-controlling interest | | -9 | 28 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **3 626** | **1 587** |

# 16.4 STATEMENT OF CHANGES IN EQUITY

| Consolidated Statement of Changes in Equity for the year ended 31 December 2012 (All amounts in MHUF, unless stated otherwise) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share Capital | Retained Earnings | General reserve | General risk reserve | Restricted reserve | Non-controlling interest | Total |
| **Balance as of 1 January 2011** | **4 500** | **12 194** | **1 369** | **63** | **500** | **50** | **18 676** |
| Total comprehensive income for the year | - | 1 559 | - | - | - | 28 | 1 587 |
| Statutory reserves | - | (122) | 175 | 12 | (65) | - | - |
| **Balance as of 1 January 2012** | **4 500** | **13 631** | **1 544** | **75** | **435** | **78** | **20 263** |
| Total comprehensive income for the year | - | 3 635 | - | - | - | (9) | 3 626 |
| Statutory reserves | - | (116) | 225 | 1 | (110) | - | - |
| **Balance as of 31 December 2012** | **4 500** | **17 150** | **1 769** | **76** | **325** | **69** | **23 889** |

# 16.5 STATEMENT OF CASH FLOWS

| Statement of Cash Flows For the year ended 31 December 2012 (All amounts in MHUF, unless stated otherwise) | | |
|---|---|---|
| | **01.01.2012–31.12.2012** | **01.01.2011–31.12.2011** |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| **Income before income taxes** | **3 626** | **1 587** |
| *Adjustments to reconcile income before income taxes to net cash provided by operating activities:* | | |
| Income Taxes | 976 | 429 |
| Depreciation and amortization | 697 | 713 |
| Unrealised (gains) / losses on fair value adjustment on financial assets at fair value through profit or loss | (1 943) | (181) |
| *Changes in operating assets and liabilities:* | | |
| Net (increase) / decrease in financial assets at fair value through profit or loss | 12 637 | (60 605) |
| Net (increase) / decrease in Receivables relating to clearing and depository activities | 44 | 68 |
| Net (increase) / decrease in other assets | (4 251) | 7 416 |
| Net (increase) / decrease in accrued interest receivables | 68 | 67 |
| Net increase / (decrease) in accrued interest payable | (75) | 525 |
| Net increase / (decrease) in other liabilities | 367 | (8 451) |
| Income Taxes paid | (670) | (389) |
| **Net cash provided by operating activities** | **11 476** | **(58 821)** |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | |
| Net (increase) / decrease in placements with other banks, net of allowance for placement losses | (744) | (1 804) |
| Net (increase) / decrease in securities available-for-sale | - | - |
| Net (increase) / decrease in associates and other investments | - | - |
| Net (increase) / decrease in securities held-to-maturity | - | - |
| Net additions to premises, equipments and intangible assets | (788) | (386) |
| **Net cash used in investing activities** | **(1 532)** | **(2 190)** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| Net increase / (decrease) in due to banks and deposits from the National Bank of Hungary and other banks | (2 981) | 65 233 |
| Net increase / (decrease) in deposits from customers | 5 604 | (1 052) |
| Net increase / (decrease) in the compulsory reserve established by the National Bank of Hungary | 34 | (1 229) |
| Dividends paid | - | - |
| **Net cash flow from financing activities** | **2 657** | **62 952** |
| **Net increase / (decrease) in cash and cash equivalents** | **12 601** | **1 941** |
| Cash and cash equivalents at the beginning of the year | 2 548 | 607 |
| Cash and cash equivalents at the end of the year | 15 149 | 2 548 |
| **Net (decrease)/increase in cash and cash equivalents** | **12 601** | **1 941** |

# 16.6 NOTES ON FINANCIAL STATEMENTS

## NOTE 1: GENERAL

Central Clearing House and Depository (Budapest) Ltd. ("the Company" or "KELER") is a limited liability company incorporated under the laws of the Republic of Hungary on 12 October 1993. The official address of the company: 1075 Budapest, Asbóth utca 9-11.

The Company's primary activities is being a clearing house for the Budapest Stock Exchange ("BSE"). The Company also handles the BSE customers' cash accounts and safekeeping of securities, OTC government securities clearing and settlement between the National Bank of Hungary ("NBH"), banks and brokers. From the beginning of 2004, the Company has been operating as a specialized credit institution under the Act CXII of 1996 on Credit Institutions and Financial Enterprises ("Act on Credit Institutions").

In accordance with the decision made by the NBH (KELER's majority shareholder), as a result of the functional separation, the activity of the central contractual party (CCP) was transferred into KELER CCP Ltd. ("KELER CCP"), while the clearing and settlement functions remained at KELER.

KELER CCP was founded by KELER and BSE in 2008.

KELER CCP is a limited liability company according to the Hungarian laws. Company's seat: H-1075 Budapest, Asbóth str. 9-11.

**KELER CCP's owners when established**

| | |
|---|---|
| KELER | 74.5% |
| BSE | 25.5% |

**KELER CCP's owners since 26 February 2009.**

| | |
|---|---|
| KELER | 74.5% |
| NBH | 13.6% |
| BSE | 11.9% |

KELER CCP is a central counterparty business association pursuant to the requirements of the Act CXX of 2001 on Capital Market ("Act on Capital Market") operating and guaranteeing the settlement of stock exchange and over-the-counter transactions. KELER CCP as central counterparty undertakes guarantee for transactions concluded on the Budapest Stock Exchange and for the financial performance of the gas market (Daily natural gas and capacity trading market) transactions. KELER CCP as general clearing member undertakes guarantee for the financial performance of power market transactions towards European Commodity Clearing AG. KELER CCP's direct partners are commodities service, securities service providers, financial institutions, participants of an organized market, or organizations performing clearing house activity. KELER CCP's activity ensures that market participants' guaranteed trades are settled risk free.

The upper limit of the settlements guarantee set is based on the equity of the Group.

KELER and KELER CCP (hereinafter the "Group") service their clients in Hungary only.

## NOTE 2: BASIS OF PREPARATION

*a) Statement of compliance*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("EU IFRS") issued by the International Accounting Standards Board ("IASB") as adopted by the EU and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC), as adopted by the EU. These consolidated financial statements have been prepared for statutory filing purposes.

These consolidated financial statements were approved by the Board of Directors on 23 April 2013. The financial statements are subject to shareholders' approval on the General Meeting to be held 15 May 2013.

*b) Basis of measurement*

The consolidated financial statements are prepared on a fair value basis for derivative financial instruments, financial assets or liabilities at fair value through profit or loss, and available-for-sale financial assets, except those for which a reliable measurement of fair value is not available. The latter items are stated at either amortised or historical cost. Other financial assets and liabilities and non-financial assets and liabilities are stated at either amortised cost or historical cost.

These consolidated financial statements are presented in Hungarian Forints rounded to the nearest million ("MHUF").

*c) Functional currency*

Items included in the consolidated financial statements are measured using Hungarian Forint, which is the currency of the primary economic environment in which the Group operates ('the functional currency').

*d) Use of estimates and judgements*

The preparation of consolidated financial statements in accordance with EU IFRS requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual result may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate revised and in any future period affected.

## NOTE 3: SIGNIFICANT ACCOUNTING POLICIES

*a) Basis of consolidation*

**Subsidiaries**
Subsidiaries are enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until that control effectively ceases. KELER' s only subsidiary is KELER CCP.

**Associates**
Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. Investments in associated companies are accounted for under the equity method, whereby the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the net assets of the investee. The income statement reflects the Group's share of the result of operations of the investee and any goodwill impairment losses. KELER has no investment in associates.

**Transactions eliminated during consolidation**
Intercompany balances and transactions, and any unrealized gains arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

**Goodwill**
Goodwill arising in a business combination is measured initially as the excess of the cost of the business combination over the acquirer's interest in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities recognized. Goodwill is subject to an annual impairment test.

**Negative goodwill**
Negative goodwill arising in a business combination is measured initially as the excess of the net fair value of the acquired identifiable assets, liabilities and contingent liabilities recognized over the cost of the business combination. Negative goodwill that arise during the year is credited to the income statement.

*b) Foreign currency transactions*

Transactions in foreign currencies are translated to Hungarian forint at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Hungarian forint at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Hungarian forint at foreign exchange rates ruling at the dates the values were determined.

*c) Cash and cash equivalents*

Cash equivalents are liquid investments with original maturity of three months or less.

*d) Financial assets and financial liabilities*

**Classification**
Financial assets or financial liabilities at fair value through profit or loss are financial assets and financial liabilities that are classified as held for trading mainly for the purpose of profit-taking or are derivative instruments that are not designated as effective hedging instruments at upon initial recognition but designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss contain state bonds, treasury bills and discount bonds issued by the NBH.

Receivables relating to clearing and depository activities are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Held-to-maturity assets are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity.

Available for sale financial assets are non-derivative instruments that are not designated as another category of financial assets.

Other liabilities contains all financial liabilities that were not classified as at fair value through profit or loss.

Other liabilities contain placements and loans from other banks, deposits from customers, liabilities relating to clearing and depository activities.

The classification and fair value of financial instruments is detailed in Note 5-6.

**Recognition**
Financial assets and liabilities are entered into the Group's books on the settlement day, except for derivative assets, which are entered on the trade day. Financial assets or financial liabilities are initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

**Derecognition**
Financial assets are derecognised when the rights to receive cash flows from the financial assets expire or the Group transfers substantially all risks and rewards of ownership of the financial asset.

**Measurement**
Subsequent to initial recognition, all financial assets or financial liabilities at fair value through profit or loss and all available for sale assets are measured at fair value. If no quoted market price exists from an active market and fair value cannot be reliably measured, the Group uses valuation techniques to determine fair value.

All financial liabilities other than at fair value through profit or loss, held to maturity financial instruments and originated receivables are measured at amortised cost less impairment. For financial assets premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

A gain or loss on a financial asset or financial liability classified as at fair value through profit or loss shall be recognised in the statement of comprehensive income, as gains and loss on securities.

A gain or loss on an available-for-sale financial asset shall be recognised directly in equity, through the statement of changes in equity, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity shall be recognised in the statement of comprehensive income, as gains and loss on securities.

For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in the statement of comprehensive income when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

**Fair value measurement**
The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using valuation models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on the Group's economic estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where valuation models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded are estimated at the amount that the Group would receive upon normal business conditions to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

**Amortised cost measurement**
The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectability for financial assets.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group shall estimate cash flows considering all contractual terms of the financial instrument but shall not consider future credit losses.

**Impairment of financial assets**
If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is recognised in the statement of comprehensive income, as other expenses.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss shall be reversed through the statement of comprehensive income, as other operating income.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the statement of comprehensive income, even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from equity and recognised in the statement of comprehensive income shall be the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the statement of comprehensive income.

Impairment losses recognised in the statement of comprehensive income for an investment in an equity instrument classified as available for sale shall not be reversed through the statement of comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss shall be reversed, with the amount of the reversal recognised in the statement of comprehensive income.

Financial assets are assessed individually or collectively. All individually significant financial assets are assessed for specific impairment. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

### *e) Impairment of non-financial assets*

If there is any indication that the carrying amount of a non-financial (within the scope of IAS 36) asset exceeds its recoverable amount, the Group makes estimates for the recoverable amount of the asset. The Group considers external and internal information in assessing the amount of impairment. Impairment loss is recognised or reversed according to the individual rating of the asset.

Inventories within the scope of IAS 2 are measured at the lower of cost and net realisable value. The Group makes estimates for the realisable amount on a quarterly basis. Write-downs are recognised or reversed according to these estimates.

If the carrying amount / cost of the non-financial asset exceeds its recoverable amount / realisable value, write-down shall be recognised, if not, write-down shall be reversed to increase the carrying amount of the asset. The carrying amount of the asset after reversal cannot exceed the original net carrying amount.

### *f) Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and impairments, if any. Depreciation is provided using the straight-line method at rates calculated to write off the cost of the asset over its expected economic useful life. The rates used by the Group are 14.5% for building improvements, 14.5% for office machines and 33% for office equipment and computers.

Expenditures incurred to replace a component of an item of property, plant and equipment that are accounted for separately, including major inspection and overhaul expenditures, are capitalized. Other subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the item of property, plant and equipment. All other expenditures are recognized in the statement of comprehensive income as expense as incurred.

### *g) Intangible assets*

Intangible assets are stated at cost less accumulated depreciation and impairments, if any. Depreciation is provided using the straight-line method at rates calculated to write off the cost of the asset over its expected economic useful life.

For software 25%, valuable rights and interests 17% depreciation rate is used on a straight-line basis.

### *h) Trading on gas market*

Based on the theory of the anonymity of the customers and the suppliers on the daily natural gas and capacity trading market, the transactions are made with the participation of KELER CCP. KELER CCP stands between the counterparties as a technical partner (customer or supplier) during the buying and selling transactions. The stock of gas held by KELER CCP is always zero at the end of a day. Therefore, buying and selling of the gas is recorded by net method settlement in the comprehensive income while in the balance sheet accounts (receivables-liabilities) it is recorded gross.

### *i) Trading on power market*

KELER CCP as a general clearing member of European Commodity Clearing Ag (ECC) maintains positions and clears the cash side of the trades to it's nonclearing members towards ECC. KELER CCP receives all relevant information from ECC who is acting as central counterparty of all trades of the power market, and KELER CCP does guaranty all account transfer according the received information between ECC and the nonclearing members.

### *j) Sale and repurchase agreements and lending of securities*

Securities sold subject to linked repurchase agreements ('repos') are retained in the financial statements as trading or investment securities with concurrent recognition of the counterparty liability. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to customers. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method. Securities lent to counterparties are also retained in the financial statements.

### *k) Revenue recognition*

**› Fee revenue**
The Group receives revenue for its clearing and depository activities (including clearing on the gas and electricity market), such revenue is recognized when these services are performed.

**› Interest income**
Interest income is recognized in the income statement for all interest bearing instruments on an accrual basis using the effective yield method.

**› Dividends**
Dividends receivable are recognised in the Group's financial statements in the period in which they are approved by the shareholders.

### *l) Income taxes*

Income tax on the statement of comprehensive income for the year comprises current and deferred tax. Income tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

### *m) Provisions*

A provision is recognized when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

*n) Statutory reserves*

**i) General reserve**
In accordance with Section 75 of Act No. CXII of 1996, a general reserve equal to 10% of the net after tax income is required to be made in the Hungarian statutory accounts. The general reserve, as calculated under Hungarian Accounting and Banking Rules, is treated as appropriations against retained earnings.

**ii) General risk reserve**
Under Section 87 of Act No. CXII of 1996, a general risk reserve of maximum 1.25% of the risk weighted assets is made. The general risk reserve is treated as appropriations against retained earnings.

**iii) Restricted reserve**
Based on corporate income tax law the group set up restricted reserve, to fund capital expansion (PPE) in the next four years.

Such amount is transferred from Retained earnings into Restricted reserve, up to an annual maximum of 500 MHUF. In financial year 2012 and 2011 the utilization amounted to MHUF 110 and 65, respectively.

*o) Hedging*

The Group is not engaged in any hedging activity.

*p) Statement of cash flows*

Information about the cash flows of the Group is useful in providing users of financial statements with a basis to assess the ability of the Group to generate cash and cash equivalents and the needs of the Group to utilise those cash flows.

For the purposes of reporting cash flows, cash and cash equivalents include cash, balances and placements with the National Bank of Hungary except those with more than three months maturity.

*q) Events after the balance sheet date*

Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the financial statements are authorised for issue. These events are adjusting and non-adjusting events.

All adjusting events after balance sheet date have been taken into account in the preparation of the consolidated financial statements of the Group. The material non-adjusting events after the balance sheet date are presented in Note 27.

## NOTE 4:
## FINANCIAL RISK MANAGEMENT

As at 31 December 2012, 31% (31 December 2011 42%) of the Group's financial assets held for trading portfolio consisted of securities issued by the Hungarian State and 69% issued by the Hungarian Central Bank. The Group's investment activity is regulated by the Act CXX of 2001 on Capital Market ("Act on Capital Market"), according to which KELER as a central depository may invest its free liquid assets from its own capital into:

a) government securities issued in Zone "A" countries;

b) debt securities issued by credit institutions established in Zone "A" countries;

c) deposits placed in the MNB and in credit institutions established in Zone "A" countries; and

d) repo transactions.

Zone "A" countries are EU and OECD countries.

The Group has policies in place to ensure that services are made to customers with an appropriate credit history. Repurchase agreements are limited to high credit quality brokers and financial institutions. Group has policies that limit the amount of credit exposure to any one broker and financial institution. As at 31 December 2012, there were no open repurchase agreements.

The main elements of the Group's counterparty risk management approach are as follows:

(i) The performance and financials of members are continuously monitored and the Group constantly monitors bankruptcy. Member banks and investment firms are rated quarterly based on financial statements, publicly available information and subjective aspects.

(ii) A two-level clearing membership system is operated by KELER CCP on every prompt and derivative market which is cleared and guaranteed by KELER CCP. On the power market, KELER CCP offers its services for its non-clearing members as a general clearing member of ECC. Clearing members and power market non clearing members have to comply with specified requirements including equity capital criteria.

(iii) A real-time price monitoring system is operated on the prompt- and derivative markets of BSE. KELER CCP is entitled to dispose intraday clearing in case the price change exceeds certain limits. On the gas and power markets diversified trading limits were introduced.

(iv) A multi-level guarantee system is operated on every prompt and derivative market, which is guaranteed and cleared by KELER CCP. The elements of the guarantee system are: individual collaterals and collective guarantee elements.

Individual collaterals include: basic financial collateral, variation margin, turnover margin, initial margin and additional collateral.

The collective guarantee elements are as follows: collective guarantee funds for both derivative and prompt markets, gas market collective guarantee funds for gas market.

(v) A capital position limit is set for clearing members on BSE and gas market position limit for clearing members on gas market. Limits are regularly monitored.

## Credit risk management

The most significant credit risk of the Group is concentrated in the KELER CCP due to the clearing membership. The main elements of the risk management procedures are described above. KELER's credit risk arises from its fee claims to clients and the exposures against the treasury counterparties. KELER manages credit risk through a Treasury limit system, which main elements are: partner limit, partner group limit, pre-settlement and settlement limit.

## Foreign currency risk management

There have been no significant differences in daily portfolios of assets and liabilities denominated in foreign currency during the financial year 2012. The majority of assets and liabilities denominated in foreign currency are cash accounts owned by customers. The balance of foreign currency cash accounts of KELER is relatively low compared to total balances. Accordingly the Group does not have significant exposure to foreign currency risk.

From the end of 2011 KELER Treasury has been entitled to enter into swap transactions. Only foreign currency funds owned by customers can be converted into HUF in overnight transactions. The purpose of swap deals is to increase HUF liquidity.

Foreign currency denominated assets amounted to HUF 7 374 million and HUF 2 948 million, while the foreign currency denominated liabilities amounted to HUF 7 250 million and HUF 6 606 million as at 31 December 2012 and 31 December 2011, respectively. The net foreign currency position during the period was around the average amount of 146 HUF million.

Details of compositions of assets and liabilities denominated in foreign currency are presented by the following tables.

| 31 December 2012 | | | | | | |
|---|---|---|---|---|---|---|
| FX | Assets | | Liabilities | | Net | |
| | in FX | In HUF mn | in FX | In HUF mn | in FX | In HUF mn |
| AUD | 47,020 | 11 | 571 | 0 | 46,449 | 11 |
| CAD | 87,318 | 19 | 60,019 | 13 | 27,299 | 6 |
| CHF | 163,393 | 39 | 140,008 | 34 | 23,385 | 5 |
| CZK | 1,154,631 | 13 | 232,551 | 3 | 922,080 | 10 |
| EUR | 19,992,064 | 5,823 | 19,898,036 | 5,796 | 94,028 | 27 |
| GBP | 153,294 | 54 | 100,892 | 36 | 52,402 | 18 |
| HKD | 169,414 | 5 | 121,814 | 3 | 47,600 | 2 |
| HUF | 74,291,303 | 74 | 74,196,578 | 74 | 94,725 | 0 |
| JPY | 3,519,857 | 9 | 1,091,966 | 3 | 2,427,891 | 6 |
| NOK | 158,243 | 6 | 114,201 | 5 | 44,042 | 1 |
| PLN | 143,535 | 10 | 78,325 | 6 | 65,210 | 4 |
| RON | 11,312 | 1 | 11,312 | 1 | 0 | 0 |
| SEK | 202,697 | 7 | 32,021 | 1 | 170,676 | 6 |
| TRY | 6,039 | 1 | 3,139 | 0 | 2,900 | 1 |
| USD | 5,883,811 | 1,300 | 5,769,489 | 1,275 | 114,322 | 25 |
| ZAR | 65,880 | 2 | 0 | 0 | 65,880 | 2 |
| **TOTAL** | | **7,374** | | **7,250** | | **124** |

| 31 December 2011 | | | | | | |
|---|---|---|---|---|---|---|
| FX | Assets | | Liabilities | | Net | |
| | in FX | In HUF mn | in FX | In HUF mn | in FX | In HUF mn |
| AUD | 47,779 | 12 | 6,449 | 2 | 41,330 | 10 |
| CAD | 114,341 | 27 | 55,374 | 13 | 58,967 | 14 |
| CHF | 73,884 | 19 | 68,889 | 18 | 4,995 | 1 |
| CZK | 1,118,671 | 13 | 211,126 | 3 | 907,545 | 10 |
| EUR | 5,595,901 | 1,741 | 17,567,681 | 5,466 | (11,971,780) | (3,725) |
| GBP | 110,016 | 41 | 104,542 | 39 | 5,474 | 2 |
| HKD | 116,662 | 4 | 116,662 | 4 | 0 | 0 |
| HUF | 3,557,246 | 4 | 3,462,522 | 3 | 94,724 | 0 |
| JPY | 3,597,160 | 11 | 1,049,269 | 3 | 2,547,891 | 8 |
| NOK | 108,243 | 4 | 98,701 | 4 | 9,542 | 0 |
| PLN | 122,303 | 9 | 75,579 | 5 | 46,724 | 3 |
| RON | 11,312 | 1 | 11,312 | 1 | 0 | 0 |
| SEK | 202,592 | 7 | 55,896 | 2 | 146,696 | 5 |
| TRY | 6,039 | 1 | 3,139 | 0 | 2,900 | 0 |
| USD | 4,377,902 | 1,054 | 4,335,681 | 1,044 | 42,221 | 10 |
| ZAR | 65,880 | 2 | 0 | 0 | 65,880 | 2 |
| **TOTAL** | | **2,948** | | **6,606** | | **-3,658** |

**Maturity analysis of assets and liabilities and liquidity risk**
The main purpose of liquidity activity is to ensure the Group's continuous solvency and thereby originate a secure liquidity of capital market transactions. Additionally, liquidity management analyses the liquidity gap between assets and liabilities.

The following tables provide an analysis of assets, liabilities and shareholders' equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

**As on 31 December 2012 (All amounts in MHUF)**

| | Within 3 months | Within one year and over 3 months | Within 5 years and over one year | Over 5 years | Without maturity | Total |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 15,149 | - | - | - | - | **15,149** |
| Placements with other banks | 7,432 | - | - | - | - | **7,432** |
| Financial assets at fair value through profit or loss | 86,626 | 13,105 | 8,707 | 4,130 | - | **112,568** |
| Receivables relating to clearing and depository activities | 381 | - | - | - | - | **381** |
| Accrued interest receivables | 536 | - | - | - | - | **536** |
| Current tax assets | 50 | - | - | - | - | **50** |
| Trade receivables | 10,170 | - | - | - | - | **10,170** |
| Other assets | 5,076 | 4 | 12 | 4 | - | **5,096** |
| Other investments | - | - | - | - | 20 | **20** |
| Intangible assets | - | - | - | - | 1,259 | **1,259** |
| Property, plant and equipment | - | - | - | - | **302** | **302** |
| **TOTAL ASSETS** | **125,420** | **13,109** | **8,719** | **4,134** | **1,581** | **152,963** |
| Placement and loans from other banks | 93,554 | **-** | **-** | **-** | **-** | **93,554** |
| Deposits from customers | 23,588 | - | - | - | - | **23,588** |
| Accrued interest payable | 680 | - | - | - | - | **680** |
| Current tax liabilities | 60 | - | - | - | - | **60** |
| Deferred tax liabilities | 445 | - | - | - | - | **445** |
| Accounts payable | 10,354 | - | - | - | - | **10,354** |
| Other liabilities | 393 | - | - | - | - | **393** |
| **TOTAL LIABILITIES** | **129,074** | **-** | **-** | **-** | **-** | **129,074** |
| Share capital | - | - | - | - | 4,500 | **4,500** |
| Retained earnings | - | - | - | - | 17,150 | **17,150** |
| Reserves | - | - | - | - | 2,170 | **2,170** |
| Non-controlling interest | - | - | - | - | 69 | **69** |
| **TOTAL SHAREHOLDERS' EQUITY** | - | **-** | **-** | **-** | **23,889** | **23,889** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **129,074** | **-** | **-** | **-** | **23,889** | **152,963** |
| **LIQUIDITY (DEFICIENCY)/EXCESS** | **(3,654)** | **13,109** | **8,719** | **4,134** | **(22,308)** | **-** |

| As on 31 December 2011 (All amounts in MHUF) | Within 3 months | Within one year and over 3 months | Within 5 years and over one year | Over 5 years | Without maturity | Total |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 2,548 | – | – | – | – | **2,548** |
| Placements with other banks | 6,722 | – | – | – | – | **6,722** |
| Financial assets at fair value through profit or loss | 105,576 | 4,491 | 8,169 | 5,027 | – | **123,263** |
| Receivables relating to clearing and depository activities | 425 | – | – | – | – | **425** |
| Accrued interest receivables | 603 | – | – | – | – | **603** |
| Other investments | 72 | – | – | – | – | **72** |
| Intangible assets | 9,845 | – | – | – | – | **9,845** |
| Property, plant and equipment | 1,111 | 5 | 16 | 7 | – | **1,139** |
| Current tax assets | – | – | – | – | 20 | **20** |
| Trade receivables | – | – | – | – | 1,063 | **1,053** |
| Other assets | – | – | – | – | **406** | **406** |
| **TOTAL ASSETS** | **126,902** | **4,496** | **8,185** | **5,034** | **1,489** | **146,106** |
| Placement and loans from other banks | 96,535 | **–** | **–** | **–** | **–** | **96,535** |
| Deposits from customers | 17,984 | – | – | – | – | **17,984** |
| Accrued interest payable | 755 | – | – | – | – | **755** |
| Current tax liabilities | 38 | – | – | – | – | **38** |
| Deferred tax liabilities | 131 | – | – | – | – | **131** |
| Accounts payable | 9,958 | – | – | – | – | **9,958** |
| Other liabilities | 442 | – | – | – | – | **442** |
| **TOTAL LIABILITIES** | **125,843** | **–** | **–** | **–** | **–** | **125,843** |
| Share capital | – | – | – | – | 4,500 | **4,500** |
| Retained earnings | – | – | – | – | 13,631 | **13,631** |
| Reserves | – | – | – | – | 2,054 | **2,054** |
| Non-controlling interest | – | – | – | – | 78 | **78** |
| **TOTAL SHAREHOLDERS' EQUITY** | – | **–** | **–** | **–** | **20,263** | **20,263** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **125,843** | **–** | **–** | **–** | **20,263** | **146,106** |
| **LIQUIDITY (DEFICIENCY)/EXCESS** | **1,059** | **4,496** | **8,185** | **5,034** | **(18,774)** | **–** |

### Interest rate risk management

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Therefore the length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The majority of the Group's assets and liabilities have interest risk. Interest rate risk is mitigated through low asset duration, and that the cost of liabilities are binded to the base rate set by the Hungarian Central Bank.

The following table presents the interest reprising dates of the Group's balance sheet items. Variable yield assets and liabilities have been reported according to their next reprising date. Fixed income assets and liabilities have been reported according to their maturity.

| INTEREST RATE RISK MANAGEMENT as on December 31 2012 (in HUF mn) | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ASSETS | within 1 month | | within 3 months over 1 month | | within 1 year over 3 months | | within 2 years over 1 year | | over 2 years | | Without maturity | | Total | | Total |
| | HUF | In foreign currency | HUF | In foreign currency | HUF | In foreign currency | HUF | In foreign currency | HUF | In foreign currency | HUF | In foreign currency | HUF | In foreign currency | |
| **Due to banks and deposits with the National Bank of Hungary** | **15,281** | **7,300** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **15,281** | **7,300** | **22,581** |
| fixed interest / discounted | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| variable interest | 15,281 | 7,300 | - | - | - | - | - | - | - | - | - | - | 15,281 | 7,300 | 22,581 |
| non-interes -bearing | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Securities held for trading** | **-** | **-** | **86,626** | **-** | **13,105** | **-** | **6,432** | **-** | **6,405** | **-** | **-** | **-** | **112,568** | **-** | **112,568** |
| fixed interest / discounted | - | - | 86,626 | - | 13,105 | - | 6,432 | - | 6, 405 | - | - | - | 112,568 | - | 112,568 |
| variable interest | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| non-interes-bearing | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Securities held to maturity** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| fixed interest / discounted | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| variable interest | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Loans (other assets)** | **-** | **-** | **1** | **-** | **4** | **-** | **3** | **-** | **13** | **-** | **-** | **-** | **21** | **-** | **21** |
| fixed interest / discounted | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| variable interest | - | - | 1 | - | 4 | - | 3 | - | 13 | - | - | - | 21 | - | 21 |

| INTEREST RATE RISK MANAGEMENT as on December 31 2012 (in HUF mn) | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| LIABILITIES | within 1 month | | within 3 months over 1 month | | within 1 year over 3 months | | within 2 years over 1 year | | over 2 years | | Non-Interest | | Total | | Total |
| | HUF | In foreign currency | HUF | In foreign currency | HUF | In foreign currency | HUF | In foreign currency | HUF | In foreign currency | HUF | In foreign currency | HUF | In foreign currency | |
| **Due to banks and deposits with the National Bank of Hungary** | **90,558** | **2,996** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **90,558** | **2,996** | **93,554** |
| fixed interest | 86,121 | - | - | - | - | - | - | - | - | - | - | - | 86,121 | - | 86,121 |
| variable interest | 4,437 | 2,996 | - | - | - | - | - | - | - | - | - | - | 4,437 | 2,996 | 7,433 |
| non-interes -bearing | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Deposits from customers** | **14,277** | **9,311** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **14,277** | **9,311** | **23,588** |
| fixed interest | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| variable interest | 14,276 | 5,058 | - | - | - | - | - | - | - | - | - | - | 14,276 | 5,058 | 19,334 |
| non-interes-bearing | 1 | 4,253 | - | - | - | - | - | - | - | - | - | - | 1 | 4,253 | 4,254 |
| NET POSITION | (89,554) | (5,007) | 86,627 | - | 13,109 | - | 6,435 | - | 6,418 | - | - | - | 23,035 | (5,007) | 18,028 |

| INTEREST RATE RISK MANAGEMENT as on December 31 2011 (in HUF mn) | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ASSETS | within 1 month | | within 3 months over 1 month | | within 1 year over 3 months | | within 2 years over 1 year | | over 2 years | | Without maturity | | Total | | Total |
| | HUF | In foreign currency | HUF | In foreign currency | HUF | In foreign currency | HUF | In foreign currency | HUF | In foreign currency | HUF | In foreign currency | HUF | In foreign currency | |
| **Due to banks and deposits with the National Bank of Hungary** | **6,326** | **2,944** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **6,326** | **2,944** | **9,270** |
| fixed interest / discounted | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| variable interest | 6,326 | 2,944 | – | – | – | – | – | – | – | – | – | – | 6,326 | 2,944 | 9,270 |
| non-interes -bearing | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| **Securities held for trading** | **–** | **–** | **105,576** | **–** | **4,491** | **–** | **3,079** | **–** | **10,117** | **–** | **–** | **–** | **123,263** | **–** | **123,263** |
| fixed interest / discounted | – | – | 105,576 | – | 4,491 | – | 3,079 | – | 10,117 | – | – | – | 123,263 | – | 123,263 |
| variable interest | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| non-interes-bearing | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| **Securities held to maturity** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| fixed interest / discounted | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| variable interest | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| **Loans (other assets)** | **–** | **–** | **2** | **–** | **5** | **–** | **1** | **–** | **21** | **–** | **–** | **–** | **29** | **–** | **29** |
| fixed interest / discounted | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| variable interest | – | – | 2 | – | 5 | – | 1 | – | 21 | – | – | – | 29 | – | 29 |

| INTEREST RATE RISK MANAGEMENT as on December 31 2011 (in HUF mn) | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **LIABILITIES** | within 1 month | | within 3 months over 1 month | | within 1 year over 3 months | | within 2 years over 1 year | | over 2 years | | Non-Interest | | Total | | Total |
| | HUF | In foreign currency | HUF | In foreign currency | HUF | In foreign currency | HUF | In foreign currency | HUF | In foreign currency | HUF | In foreign currency | HUF | In foreign currency | |
| **Due to banks and deposits with the National Bank of Hungary** | **93 000** | **3 535** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **93 000** | **3 535** | **96,535** |
| fixed interest | – | 88,837 | – | – | – | – | – | – | – | – | – | – | 88,837 | - | 88,837 |
| variable interest | 4,163 | 3,535 | – | – | – | – | – | – | – | – | – | – | 4,163 | 3,535 | 7,698 |
| non-interes -bearing | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| **Deposits from customers** | **14,462** | **3,522** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **14,462** | **3,522** | **17,984** |
| fixed interest | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| variable interest | 14,343 | 451 | – | – | – | – | – | – | – | – | – | – | 14,343 | 451 | 14,794 |
| non-interes-bearing | 119 | 3,071 | – | – | – | – | – | – | – | – | – | – | 119 | 3,071 | 3,190 |
| NET POSITION | (101 136) | (4 113) | 105,578 | – | 4,490 | – | 3,080 | – | 10,138 | – | – | – | 22 156 | (4 113) | 18,043 |

**Application of VaR methodologies**

The VaR estimates the maximum potential loss arising from value change of a certain portfolio i.e the maximum theoretical, not yet realized loss over a given period at a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number.

Considering the fact that the Group is not affected significantly by either the foreign currency risk or by the risk of fluctuation in equity instrument prices, the majority of VaR exposure is related to interest rate risk of KELER.

Risks exposures of KELER computed by the VaR methodology are summarized in the following table. Calculation of the VaR amounts assumes 99% probability and one-day relative shift. Foreign currency VaR relates to foreign currency denominated balances of KELER. Interest VaR is related to KELER's portfolio of securities issued by Hungarian State, investment securities and secured and non-secured loans and deposits.

| (HUF million) | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **Interest Var** | | |
| By 250-daily standard deviation | 112.2 | 198.4 |
| By 60-daily standard deviation | 99.4 | 279.4 |
| **Foreign currency VaR** | | |
| By 250-daily standard deviation | 2.2 | 1.4 |
| By 60-daily standard deviation | 1.9 | 1.7 |

**Sensitivity analyses**

While VaR captures KELER's daily exposure to foreign currency and interest rate risk based on recent data showing real market volatility, sensitivity analysis indicates that if the value of the main, determining element of a rate changes to a certain extent, what level of change is generated in the value of the portfolio.

- Foreign currency sensitivity analysis

KELER performs foreign currency sensitivity analysis based on its own foreign currency positions. The data in the following table shows the relative (expressed in percentage) and absolute change of HUF value of foreign currency positions in case of weakening of EUR and USD prices.

| (HUF million) | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **1% Weakening of EUR** | | |
| Sensitivity of portfolio (%) | 0.2171% | 0.115% |
| Sensitivity of portfolio (HUF mil.) | 0.273 | 0.08 |
| **1% Weakening of USD** | | |
| Sensitivity of portfolio (%) | 0.2002% | 0.133% |
| Sensitivity of portfolio (HUF mil.) | 0.252 | 0.1 |

- Interest rate sensitivity analysis

KELER measures interest rate sensitivity of assets on a daily basis. The interest rate sensitivity of assets (i.e the potential loss expected in the case of a 100 base point parallel positive shift of the yield curve) was HUF 522,5 million and HUF 554,6 million as at 31 December 2012 and 31 December 2011, respectively.

- Equity price sensitivity analysis

The Group has no significant equity instruments held in 2012 and 2011 therefore is not exposed to a significant equity price risk.

**Capital management**

KELER applies the regulations of Act CXII of 1996 on Credit Institutions and Financial Enterprises, and Government Decree 196/2007 ("Decree") on management and capital requirements of credit risk.

In accordance with 90§ of the Act CXII of 1996 Group doesn't cover under consolidated supervision. The management interested in only KELER's regulatory capital and capital adequacy ratio.

In accordance with the Act CXII of 1996 a credit institution - for the purpose of maintaining solvency and the ability to fulfill liabilities - must have a solvency margin complying at all times (in all survey periods) with the amount of the risk of the financial and investment activities performed thereby, and must continuously maintain at least 8% capital adequacy ratio. The regulatory capital is determined in accordance with schedule no. 5 of Act CXII of 1996, and the denominator of capital adequacy ratio is determined in accordance with the Decree.

The supervision of complying with capital management regulations is performed by the Hungarian Financial Supervisory Authority.

KELER has complied with the regulatory and prudential regulations and the limits set by the Act CXII of 1996 during 2012 and 2011, the capital adequacy ratio exceeded significantly the 8 per cent requirement.

The following table contains the calculation of the KELER's regulatory capital and capital adequacy ratio.

| | 2012 | 2011 |
|---|---|---|
| **I. Calculation of Regulatory Capital** | | |
| Share capital | 4,500 | 4,500 |
| Restricted reserve | 325 | 435 |
| Retained earnings | 13,152 | 11,473 |
| Net profit for the year | 2,027 | 1,569 |
| General reserve | 1,770 | 1,545 |
| General risk reserve | 76 | 61 |
| **Capital base** | **21,850** | **19,583** |
| **Items to be deducted (-)** | | |
| Intangible assets | (1,207) | (1,060) |
| Investment restrictions | - | - |
| Large exposures of restrictions | (3,578) | (8,006) |
| **Total amount of deducted items** | **(4,785)** | **(9,066)** |
| **Regulatory Capital available for hedging risks** | **17,065** | **10,517** |
| **II. Calculation of Capital Requirement** | | |
| Total capital requirement for credit risk | 487 | 479 |
| Total capital requirement for exchange rate risk | 385 | 435 |
| Total capital requirement for operating risk | 889 | 835 |
| **Total Capital Requirement** | **1,761** | **1,749** |
| **Risk weighted exposure** | **6,090** | **5,992** |
| **III. Capital adequacy ratio** | | |
| Bazel I. | 68% | 48% |
| Bazel II. | 38% | 25% |

### NOTE 5: CASH AND CASH EQUIVALENTS

| | 2012 | 2011 |
|---|---|---|
| **Due from banks and balances with NBH** | | |
| Within one year In HUF | 15,149 | 2,548 |
| | **15,149** | **2,548** |

| **Placements with other banks** | | |
|---|---|---|
| Within one year In HUF | 7,432 | 6,722 |
| | **7,432** | **6,722** |

Based on the requirements for compulsory reserves set by the NBH, the balance of compulsory reserves amounted to approximately HUF 2 099 million and HUF 2 133 million on average in 2012 and 2011, respectively.

Daily balance was HUF 15 149 million and HUF 2 548 million as at 31 December 2012 and 2011, respectively.

Interbank placements include bank accounts at Clearstream Bank, Citibank A.G., NBH and OTP Bank Plc.

### NOTE 6: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| **Financial assets at fair value through profit or loss**<br>Securities held for trading | | |
|---|---|---|
| | 2012 | 2011 |
| Hungarian Government Discount Treasury Bills | 21,116 | 38,123 |
| Hungarian Government Bonds | 13,536 | 13,196 |
| NBH Bonds | 77,916 | 71,944 |
| | **112,568** | **123,263** |

In the Group's security portfolio, the proportion of the Hungarian Government Discount Treasury Bills is 19% and 31% as at 31 December 2012 and 31 December, 2011, respectively. The main purpose is to assure the continuous liquidity within one year. The remaining portfolio includes government bonds and NBH Bonds with fixed interest rate. The annual average yield was 8.94% and 8.85% in year 2012 and 2011, respectively.

### NOTE 7: RECEIVABLES RELATING TO CLEARING AND DEPOSITORY ACTIVITIES

| **Receivables relating to clearing and depository activities** | | |
|---|---|---|
| | 2012 | 2011 |
| Receivables from custodian services | 66 | 72 |
| Receivables from customers on stock exchange transactions | 315 | 353 |
| | **381** | **425** |

### NOTE 8: INVESTMENT

| **Investments** | | |
|---|---|---|
| | 2012 | 2011 |
| GIRO | 20 | 20 |
| | **20** | **20** |

No impairment was charged against these investments.

### NOTE 9: TRADE RECEIVABLES

| **Trade receivables** | | |
|---|---|---|
| | 2012 | 2011 |
| Receivable from the gas market | 9,972 | 9,680 |
| Other receivables | 198 | 165 |
| | **10,170** | **9,845** |

No impairment was charged against those receivables.

## NOTE 10: INTANGIBLE ASSETS

| Intangible assets | | | | |
|---|---|---|---|---|
| **Cost** | **Rights and interests** | **Goodwill** | **Intellectual property** | **Total** |
| Balance as on 1 January 2012 | 115 | 47 | 6,343 | 6,505 |
| Additions | - | - | 904 | 904 |
| Disposals | - | - | 212 | 212 |
| Balance as on 31 December 2012 | 115 | 47 | 7,035 | 7,197 |
| **Cumulated Depreciation and Amortization** | | | | |
| Balance as on 1 January 2012 | 74 | 47 | 5,320 | 5,441 |
| Additions | 16 | - | 481 | 497 |
| Disposals | - | - | - | - |
| Balance as on 31 December 2012 | 90 | 47 | 5,801 | 5,938 |
| **Net book value** | | | | |
| Balance as on 1 January 2012 | 41 | - | 1,023 | 1,064 |
| Balance as on 31 December 2012 | 25 | - | 1,234 | 1,259 |

| Intangible assets | | | | |
|---|---|---|---|---|
| **Cost** | **Rights and interests** | **Goodwill** | **Intellectual property** | **Total** |
| Balance as on 1 January 2011 | 115 | 47 | 6,023 | 6,185 |
| Additions | – | – | 394 | 394 |
| Disposals | – | – | 74 | 74 |
| Balance as on 31 December 2011 | 115 | 47 | 6,343 | 6,505 |
| **Comulated Depreciation and Amortization** | | | | |
| Balance as on 1 January 2011 | 56 | 47 | 4,773 | 4,876 |
| Additions | 18 | – | 547 | 565 |
| Disposals | – | – | – | – |
| Balance as on 31 December 2011 | 74 | 47 | 5,320 | 5,441 |
| **Net book value** | | | | |
| Balance as on 1 January 2011 | 59 | – | 1,250 | 1,309 |
| Balance as on 31 December 2011 | 41 | – | 1,023 | 1,064 |

## NOTE 11: PROPERTY, PLANT AND EQUIPMENT

| Property, plant and equipment | | | |
|---|---|---|---|
| **Cost** | **Buildings and improvements** | **Machinery and equipments** | **Total** |
| Balance as on 1 January 2012 | 364 | 1,605 | 1,969 |
| Additions | 9 | 705 | 714 |
| Disposals | 4 | 645 | 649 |
| Balance as on 31 December 2012 | 368 | 1,665 | 2,033 |
| **Comulated Depreciation and Amortization** | | | |
| Balance as on 1 January 2012 | 141 | 1,422 | 1,563 |
| Additions | 94 | 106 | 200 |
| Disposals | - | 32 | 32 |
| Balance as on 31 December 2012 | 235 | 1,496 | 1,731 |
| **Net book value** | | | |
| Balance as on 1 January 2012 | 223 | 183 | 406 |
| Balance as on 31 December 2012 | 133 | 169 | 302 |

| Property, plant and equipment | | | |
|---|---|---|---|
| **Cost** | **Buildings and improvements** | **Machinery and equipments** | **Total** |
| Balance as on 1 January 2011 | 357 | 1,556 | 1,913 |
| Additions | 8 | 356 | 364 |
| Disposals | – | 307 | 307 |
| Balance as on 31 December 2011 | 346 | 1,605 | 1,969 |
| **Comulated Depreciation and Amortization** | | | |
| Balance as on 1 January 2011 | 120 | 1,305 | 1,425 |
| Additions | 21 | 127 | 148 |
| Disposals | – | 10 | 10 |
| Balance as on 31 December 2011 | 141 | 1,422 | 1,563 |
| **Net book value** | | | |
| Balance as on 1 January 2011 | 237 | 251 | 488 |
| Balance as on 31 December 2011 | 223 | 183 | 406 |

## NOTE 12: PLACEMENT AND LOANS FROM OTHER BANKS

| Placement and loans from other banks | | |
|---|---|---|
| | 2012 | 2011 |
| Within one year in HUF | 90,558 | 93,000 |
| Within one year in foreign currency | 2,996 | 3,535 |
| | 93,554 | 96,535 |

The above balance includes deposit placed by banks to the collective guarantee fund in the amount of 929 MHUF (1 268 MHUF).

## NOTE 13: DEPOSITS FROM CUSTOMERS

| | 2012 | 2011 |
|---|---|---|
| **Interest-bearing** | | |
| Within one year in HUF | 14,276 | 14,343 |
| Within one year in foreign currency | 5,058 | 451 |
| **Non interest-bearing** | | |
| Within one year in HUF | 1 | 119 |
| Within one year in foreign currency | 4,253 | 3,071 |
| | **23,588** | **17,984** |

In 2012 and 2011 the Group paid an annual average rate of 4.5% for the HUF interest-bearing deposits. In 2012 and 2011, the Group did not pay interests for the foreign exchange deposits.

The above balance includes deposit placed by clients to the collective guarantee fund in the amount of 3 244 MHUF (3 168 MHUF).

## NOTE 14: ACCOUNTS PAYABLE

| Accounts payable | 2012 | 2011 |
|---|---|---|
| Accounts payable from the gas market | 9,972 | 9,680 |
| Other accounts | 382 | 278 |
| | **10,354** | **9,958** |

## NOTE 15: SHARE CAPITAL

There was no change in the share capital of the Company compared to the prior year. The share capital consists of 900 shares with nominal (par) value of HUF 5 million per share as on 31 December 2012. All 900 shares have been authorized, issued and fully paid.

| Share capital | 2012 | 2011 |
|---|---|---|
| Magyar Nemzeti Bank (National Bank of Hungary) | 2,400 | 2,400 |
| Budapesti Értéktőzsde (Budapest Stock Exchange) | 2,100 | 2,100 |
| | **4,500** | **4,500** |

There are no special rights or limitations attributed to shareholders by these shares.

Magyar Nemzeti Bank (National Bank of Hungary) held 53.33% of the shares directly and 3.24% indirectly as on 31 December 2011 and 31 December 2010.

Budapesti Értéktőzsde (Budapest Stock Exchange) held 46.67% of the shares directly as on 31 December 2011 and 31 December 2010.

Minority interest represents the 11.9% share of BSE in KELER CCP.

## NOTE 16: STATUTORY RESERVES

| Statutory Reserves | 2012 | 2011 |
|---|---|---|
| General reserve | 1,769 | 1,544 |
| General risk reserve | 76 | 75 |
| Restricted reserve | 325 | 435 |
| | **2,170** | **2,054** |

## NOTE 17: INCOME FROM CLEARING AND DEPOSITORY ACTIVITY

| Income from Clearing and Depository Activity | 2012 | 2011 |
|---|---|---|
| Clearing fees | 1,913 | 1,925 |
| Other commission income | 873 | 866 |
| Transaction fees | 550 | 714 |
| Security transaction fees | 632 | 694 |
| Clearing fees from the gas market | 190 | 192 |
| Account maintenance fees | 156 | 160 |
| | **4,314** | **4,551** |

→

## NOTE 18: NET INTEREST INCOME

| Interest income | | |
|---|---|---|
| | 2012 | 2011 |
| Loans | 436 | 219 |
| Due from banks and balances with the National Bank of Hungary and other banks | 175 | 130 |
| Held for trading securities | 9,353 | 5,564 |
| Held-to-maturity securities | - | – |
| | **9,964** | **5,913** |
| **Interest expense** | | |
| Due to banks and deposits from the National Bank of Hungary and other banks | (1,067) | (608) |
| Deposits from customers | (6,358) | (3,442) |
| Other | - | – |
| | **(7,425)** | **(4,050)** |
| **NET INTEREST INCOME** | **2 539** | **1,863** |

## NOTE 19: PERSONNEL EXPENSES

| Personnel expenses | | |
|---|---|---|
| | 2012 | 2011 |
| Wages | 1,075 | 989 |
| Base wages | 944 | 869 |
| Premium | 131 | 120 |
| Social security and other contributions | 359 | 317 |
| Other cost of personnel | 233 | 261 |
| | **1 667** | **1,567** |

The average number of employees was 131 on 31 December 2012 (124 in 2011).

## NOTE 20: OTHER EXPENSES

| Other expenses | | |
|---|---|---|
| | 2012 | 2011 |
| Contracted services | 866 | 795 |
| Taxes | 295 | 288 |
| Rental fees | 147 | 141 |
| Postage and phone fees | 71 | 74 |
| Material type expenses | 65 | 63 |
| Lawyer's fee | 65 | 61 |
| Fees paid for education | 29 | 31 |
| Fees paid to experts | 21 | 27 |
| Fees paid to authorities | 17 | 19 |
| Insurance fees | 8 | 8 |
| Marketing cost | 7 | - |
| Loss of value of financial assets | - | 371 |
| Other | 151 | 89 |
| | **1,742** | **1,967** |

## NOTE 21: INCOME TAX EXPENSE

The income tax rate was 19% and 10% (up to HUF 500 million profit) in Hungary in 2012 and 2011.

A breakdown of the income tax expense is:

| Income Taxes | | |
|---|---|---|
| | 2012 | 2011 |
| Current tax | 501 | 382 |
| Deferred tax | 314 | (106) |
| | **815** | **276** |

A reconciliation of the deferred tax liabilities is as follows:

| Deferred tax assets (+) / liabilities (-) | 2012 | 2011 |
|---|---|---|
| Balance as on 1 January | (131) | (237) |
| Deferred tax charge | (314) | 106 |
| **Balance as on 31 December** | **(445)** | **(131)** |

A breakdown of the deferred tax liabilities is as follows:

| Deferred tax assets (+) / liabilities (-) | 2012 | 2011 |
|---|---|---|
| Fair value adjustment of held for trading and held-to-maturity securities | (369) | (34) |
| General risk provisions | (14) | (14) |
| Restricted reserve | (62) | (83) |
| | **(445)** | **(131)** |

Temporary differences result primarily from timing differences arising on the different valuation principles of financial assets held for trading for tax and accounting purposes.

A reconciliation of the income tax charge is as follows:

| | 2012 | 2011 |
|---|---|---|
| Net income before income taxes | 4,440 | 1,863 |
| Income tax with statutory tax rate (19%) | 749 | 259 |
| Income tax with statutory tax rate (10%) | 50 | 50 |
| **Total tax** | **799** | **309** |

Income tax adjustments are as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| Income tax | 0,57% | 25 | 0.20% | 4 |
| Subsidies | 0,00% | - | 0.06% | 1 |
| Dividend income | -0,06% | (3) | -0.14% | (3) |
| Effect of general risk reserve | -0,33% | (14) | -0.75% | (14) |
| Restricted reserve | -1,40% | (62) | -4.46% | (83) |
| Other | 1,60% | 70 | 3.28% | 62 |
| **Income tax** | | **815** | | **276** |
| **Effective tax rate** | | **18%** | | **15%** |

## NOTE 22: SECURITIES SAFEGUARDED AND DEPOSITED

Foreign securities means amounts in security accounts of the counterparties.

| SECURITIES | NOMINAL VALUE | |
|---|---|---|
| | 31.12.2012 | 31.12.2011 |
| **Physical securities** | | |
| Securities introduced to the stock exchange-Physical | – | – |
| Securities not introduced to the stock exchange-Physical | | |
| Corporate bonds | 3 | 3 |
| Shares | 22,925 | 25,875 |
| Investment Fund coupons | - | – |
| | **22,928** | **25,878** |
| **Dematerialized securities** | | |
| Introduced to the stock exchange | 12,585,201 | 12,365,012 |
| Not introduced to the stock exchange | 13,519,813 | 10,692,010 |
| | **26,105,014** | **23,057,022** |
| **TOTAL** | **26,127,962** | **23,082,900** |
| **Materialized securities denominated in foreign currency** | | |
| Share denominated in foreign currency (CHF) | 1,333 | 1,415 |
| Share denominated in foreign currency (USD) | 7 | 8 |
| **Dematerialized securities denominated in foreign currency** | | |
| Government securities (EUR) | 174,774 | - |
| Investment Fund coupons (EUR) | 290,039 | 223,884 |
| Investment Fund coupons (USD) | 74,934 | 63,787 |
| Investment Fund coupons (PLN) | 9,862 | 6,148 |
| Investment Fund coupons (CZK) | 15,292 | 2,690 |
| Investment Fund coupons (BGN) | 5,705 | 4,877 |
| Investment Fund coupons (RON) | 2 | 2 |
| Share denominated in foreign currency (EUR) | 430,195 | 125,567 |
| Share denominated in foreign currency (USD) | 22,296 | 21,789 |
| Mortgage bonds denominated in foreign currency (EUR) | 96,854 | 154,632 |
| Mortgage bonds denominated in foreign currency (CHF) | 13,499 | 23,032 |
| Capital bonds denominated in foreign currency (EUR) | 5,826 | 6,223 |
| Bonds (CHF) | 409,574 | 528,752 |
| Bonds (EUR) | 260,953 | 230,163 |
| Bonds (USD) | 8,927 | 3,651 |
| **TOTAL** | **1,820,072** | **1,396,620** |

## NOTE 23: OFF BALANCE SHEET ITEMS

| Guarantees received | 2012 | 2011 |
|---|---|---|
| Cash in HUF | 15,402 | 15,164 |
| Cash in foreign currency | 6,118 | 1,040 |
| Security | 28,235 | 26,445 |
| Bank guarantee | 2,996 | 3,501 |
| | **52,751** | **46,150** |

| Specific safeguards | 2012 | 2011 |
|---|---|---|
| Cash in foreign currency | 4,942 | 1,000 |
| Bank guarantee | 146 | 156 |
| | **5,088** | **1,156** |

KELER Ltd. provides settlement service for certain contractual domestic partners regarding securities transaction made in the XETRA System of Deutsche Börse. KELER Ltd. has a partnership with CITIBANK Frankfurt, which is a clearing member in XETRA Clearing AG. KELER CCP has to provide collateral for CITIBANK Frankfurt regarding XETRA settlement. KELER requires collateral from his Clients at least the same size, but with a minimum amount of EUR 50 thousand. KELER CCP is entitled to require a collateral from its Clearing Members using its central counterparty services. The form of collateral can be cash, foreign exchange, securities and bankguarantees. As clearing member of European Commodity Clearing AG (ECC) KELER CCP has to provide collateral for ECC regarding the settlement of power market position of power market non-clearing members of KELER CCP.

## NOTE 24: RELATED PARTY TRANSACTIONS

As at 31 December 2012 the Group had provided housing loans to management. The outstanding amount was HUF 5 million as on 31 December 2012 and HUF 5 million as on 31 December 2011 respectively.

A number of transactions are entered into with related parties and owners of the Group in the normal course of business. These include deposit placed and services provided. These transactions were carried out on commercial terms and at market rates. The volumes of related party transactions, outstanding balances at the year end, and relating income and expense for the year are as follows.

| NATIONAL BANK OF HUNGARY | 2012 | 2011 |
|---|---|---|
| Term deposit placements | 9,389 | 2,117 |
| | **9,389** | **2,117** |
| Interest income | 8 | 12 |
| Other income | 13 | 13 |
| | **22** | **25** |
| Bank account costs | 11 | 16 |
| Other costs | 3 | 1 |
| | **14** | **17** |

| Transactions with directors and officers | 2012 | 2011 |
|---|---|---|
| Remuneration of the members of the Board of Directors | 27 | 24 |
| Remuneration of the members of the Supervisory Board | 10 | 9 |
| Remuneration of the members of the Board of Management | 189 | 190 |
| Loans given to management | 86 | 86 |
| Loan repayment by management | 82 | 81 |

## NOTE 25: CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

**31 December 2012**

| | Financial instruments (fair value option) | Receivables | Available for sale assets | Other assets or liabilities at amortised cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | – | 15,149 | – | – | 15,149 | 15,149 |
| Placements with other banks | – | 7,432 | – | – | 7,432 | 7,432 |
| Financial assets at fair value through profit and loss | 112,568 | – | – | – | 112,568 | 112,568 |
| Receivables relating to clearing and depository activities | – | 381 | – | – | 381 | 381 |
| Other investments | – | – | 20 | – | 20 | 20 |
| Placement and loans from other banks | – | – | – | 93,554 | 93,554 | 93,554 |
| Deposits from customers | – | – | – | 23,588 | 23,588 | 23,588 |
| Accounts payable | – | – | – | 10,354 | 10,354 | 10,354 |

**31 December 2011**

| | Financial instruments (fair value option) | Receivables | Available for sale assets | Other assets or liabilities at amortised cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | – | 2,548 | – | – | 2,548 | 2,548 |
| Placements with other banks | – | 6,722 | – | – | 6,722 | 6,722 |
| Financial assets at fair value through profit and loss | 123,263 | – | – | – | 123,263 | 123,263 |
| Receivables relating to clearing and depository activities | – | 425 | – | – | 425 | 425 |
| Other investments | – | – | 20 | – | 20 | 20 |
| Placement and loans from other banks | – | – | – | 96,535 | 96,535 | 96,535 |
| Deposits from customers | – | – | – | 17,984 | 17,984 | 17,984 |
| Accounts payable | – | – | – | 9,958 | 9,958 | 9,958 |

## NOTE 26: SUBSEQUENT EVENTS

The dividend for the financial year 2012 may be approved at the General Meeting to be held the 15th May 2013.

## NOTE 27: PRESENTATION OF THE DIFFERENCE BETWEEN HAS AND EU IFRS INCOME

This Note presents the difference of KELER and KELER CCP earnings according to Hungarian accounting standards and the consolidated EU IFRS earnings.

**Presentation of the difference between HAS and EU IFRS**

| | Net profit under HAS | Financial assets | General risk reserve | General reserve | Deferred tax | Adjusting items under EU IFRS | Net profit under EU IFRS |
|---|---|---|---|---|---|---|---|
| **Net profit of KELER** | **2 027** | – | – | – | – | **1 674** | **3 702** |
| Exchange gains and losses of securities | – | 1 762 | – | – | – | 1 762 | – |
| Other expenses (General risk reserve) | – | – | 2 | – | – | 2 | – |
| Other expenses (General reserve) | – | – | – | 225 | – | 225 | – |
| Corporate tax | – | – | – | – | (314) | (314) | – |
| Adjusting items: | – | 1 762 | 2 | 225 | (314) | 1 674 | 1 674 |
| Net profit of CCP | (76) | – | – | – | – | – | (76) |
| Consolidated profit of KELER | 1 951 | – | – | – | – | 1 674 | 3 626 |

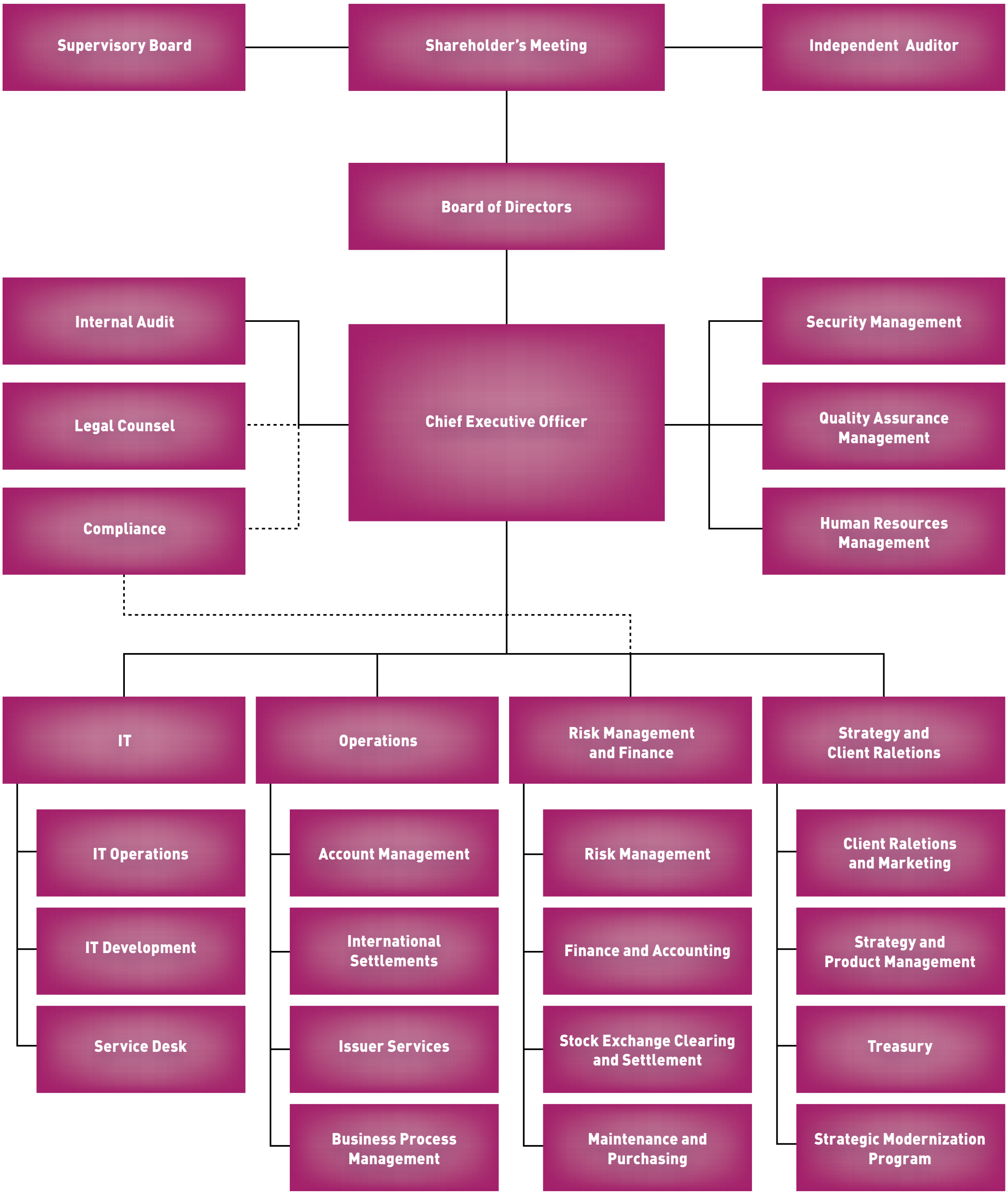
## NOTE 28: NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Changes -listed below- are not affected the figures of Financial Statements and Independent Auditor's Report.

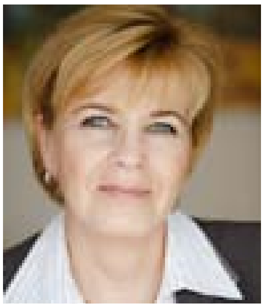
| | |
|---|---|
| Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities<br>(Effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods; to be applied retrospectively.) | The Group does not expect the Amendments to have any impact on the financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements. |
| IFRS 10 Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements<br>(Effective for annual periods beginning on or after 1 January 2014; Earlier application is permitted if IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied early.)<br>This Standard is to be applied retrospectively when there is a change in control conclusion. | The Group does not expect the new standard to have any impact on the financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Group's control over its investees. |
| IFRS 11 Joint Arrangements<br>(Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively subject to transitional provisions. Earlier application is permitted if IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied early.) | The Group does not expect IFRS 11 to have material impact on the financial statements since it is not a party to any joint arrangements. |

| | |
|---|---|
| IFRS 12 Disclosure of Interests in Other Entities<br>(Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted. | The Group does not expect the new Standard will have a material impact on the financial statements. |
| IFRS 13 Fair Value Measurement<br>(Effective prospectively for annual periods beginning on or after 1 January 2013. Earlier application is permitted.) | The Group does not expect IFRS 13 to have material impact on the financial statements since management considers the methods and assumptions currently used to measure the fair value of assets to be consistent with IFRS 13. |
| Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income<br>(Effective for annual periods beginning on or after 1 July 2012; to be applied retrospectively. Earlier application is permitted.) | The amendments are not relevant to the Group's financial statements, since the Group does not have other comprehensive income. |
| Amendments to IAS 12: Deferred Tax: Recovery of Underlying Assets<br>(Effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively. Earlier application is permitted.) | The amendments are not relevant to the Group's financial statements, since the Group does not have any investment properties measured using the fair value model in IAS 40. |
| IAS 19 (2011) Employee Benefits<br>(Effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively. Transitional provisions apply. Earlier application is permitted.) | The amendments are not relevant to the Group's financial statements, since the Group does not have any defined benefit plans. |
| IAS 27 (2011) Separate Financial Statements<br>(Effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011) are also applied early.) | The Group does not expect IAS 27 (2011) to have material impact on the financial statements, since it does not results in a change in the Group 's accounting policy. |
| IAS 28 (2011) Investments in Associates and Joint Ventures<br>(Amendments effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011) are also applied early.) | The Group does not expect the amendments to Standard to have material impact on the financial statements since it does not have any investments in associates or joint ventures that will be impacted by the amendments. |
| Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities<br>(Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted, however the additional disclosures required by Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities must also be made.) | The Group does not expect the Amendments to have any impact on the financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements. |

# 22. ORGANIZATIONAL STRUCTURE OF KELER



# 23. MANAGEMENT



**Margit Brauner**
Director

Operations

**Károly Mátrai**
Director

Risk Management
and Finance

**András Katkó**
Director

IT

**Péter Csiszér**
Director

Strategy and
Client Relations

**György Dudás**
Chief Executive Officer

# 24. GENERAL INFORMATION

### Ownership structure

| Shareholders | | | Shareholding (%) |
|---|---|---|---|
| National Bank of Hungary (NBH) | HUF | 2,400 million | 53.33% |
| Budapest Stock Exchange (BSE) | HUF | 2,100 million | 46.67% |
| Total | HUF | 4,500 million | 100.00% |

### Members of the Board of Directors

Csaba Lantos – Chairman
György Sándor – Vice Chairman*
Csaba Balogh – Vice Chairman
Zsolt Katona**
Gergely Kóczán**
Dr. György Mohai*
Ferenc Pittner*
Hannes A. Takacs
György Dudás
Margit Brauner

* until 30 June 2012
** from 30 June 2012

### Members of the Supervisory Board

Lajos Bartha – Chairman*
Attila Tóth – Vice Chairman*
Attila Tóth – Chairman**
Lajos Bartha – Vice Chairman**
Judit Brosch*
Attila Lovas*
Georg Zinner**
Varga Lóránt**

* until 30 June 2012
** from 30 June 2012

### Contact

Address:
Asbóth u. 9-11, 1075 Budapest,

Mailing address:
H-1367 Budapest 5, POB 73

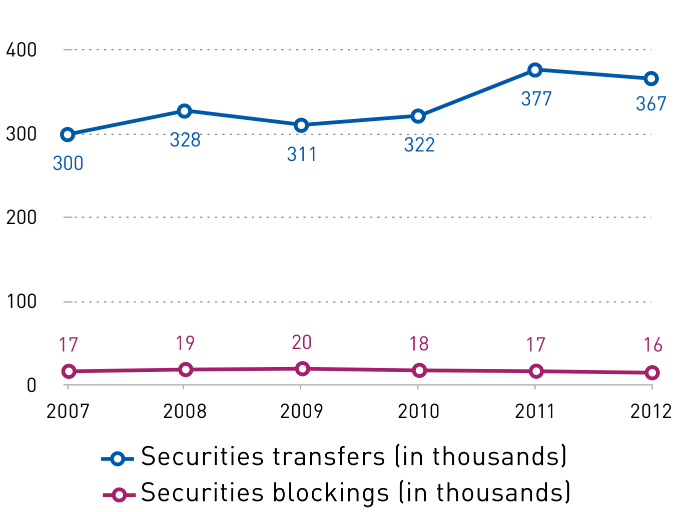
Phone: (+36-1) 483-6100
Fax: (+36-1) 342-3539
Home page: www.keler.hu
E-mail: keler@keler.hu

**Central Client Service**
Monday to Friday
from 9.00 hrs until 15.00 hrs
Phone: (+36-1) 483-6240

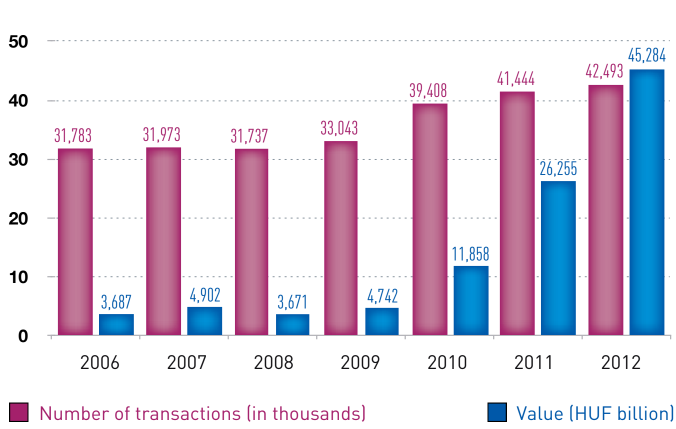
**Service Desk**
Available from 7.00 hrs until 18.00 hrs
Phone: (+36-1) 483-6228
or (+36-1) 483-6120

# 25. OTHER STATISTICS

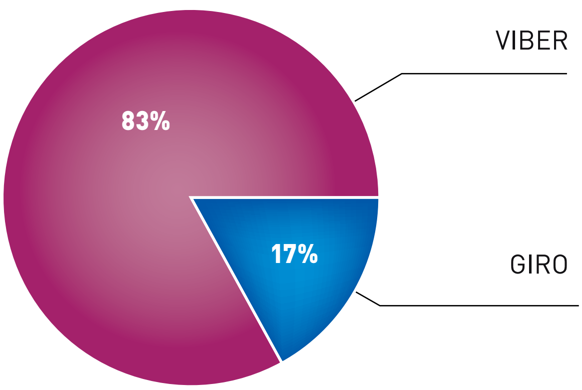
### Number of other securities transactions | 2007 - 2012



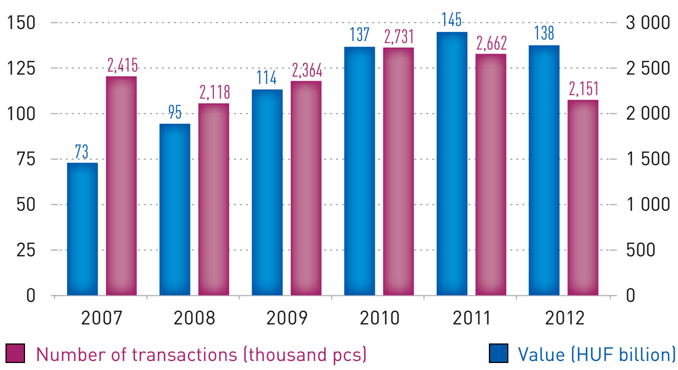

### Customer payment transaction (internal) from / to KELER cash accounts 2006 - 2012



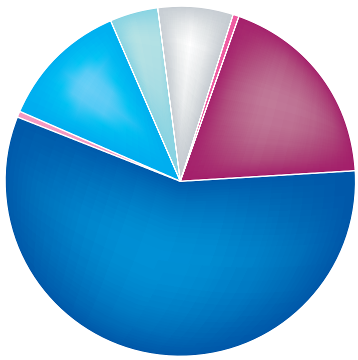

### Structure of GIRO - VIBER turnover in 2012




### Customer payment transaction (external) from / to KELER cash accounts 2007 - 2012

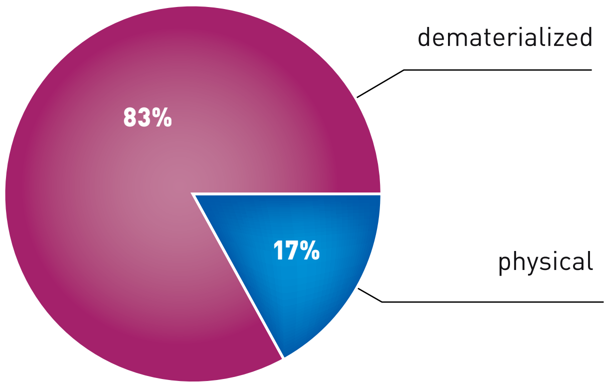


## ISIN issued in 2012 by type of securities

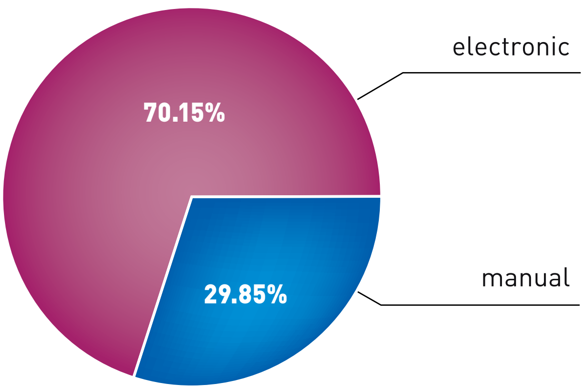


| | |
|---|---|
| Investment units | 96 |
| Mortgage bonds | 7 |
| Bonds | 257 |
| Equities | 783 |
| Interest bearing treasuries | 11 |
| Government bonds | 163 |
| MNB Bonds | 60 |
| **Total** | **1 377** |

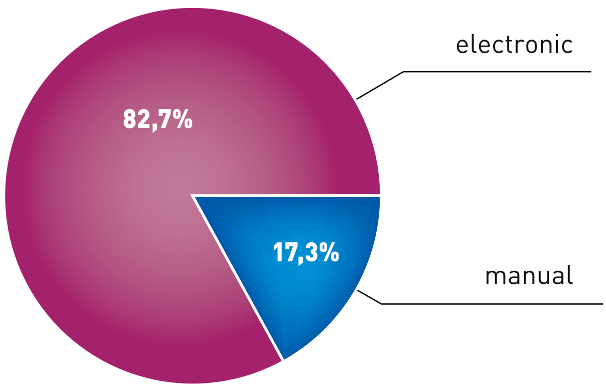
## ISINs issued in 2012 by securities form




## ISINs issued in 2012 by origin




## ISINs issued in 2012 – without government securities




## Proportion of origination of ISIN codes issued in 2012 for dematerialized securities